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INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES COMMITTEE

Members present:

Mr J Pearce MP (Chair)
Mr CD Crawford MP
Mr S Knuth MP
Mrs BL Lauga MP
Mrs AM Leahy MP
Mr AJ Perrett MP

Staff present:

Dr J Dewar (Committee Secretary)

PUBLIC HEARING—INQUIRY INTO LONG-TERM SUSTAINABILITY OF LOCAL GOVERNMENT

TRANSCRIPT OF PROCEEDINGS

THURSDAY, 1 JUNE 2017

Cairns

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THURSDAY, 1 JUNE 2017

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Committee met at 8.56 am

CHAIR: Good morning. I declare open the public hearing for the committee's inquiry into the long-term financial sustainability of local government. I thank you for your attendance here today. I am Jim Pearce, the member for Mirani, and chair of the committee. The other committee members with me here today are Ms Ann Leahy, the deputy chair and member for Warrego; Mr Craig Crawford, the local member, who will be joining us shortly; Mr Shane Knuth, the member for Dalrymple; Mrs Brittany Lauga, the member for Keppel; and Mr Tony Perrett, who is the member for Gympie.

The committee's proceedings are proceedings of the Queensland parliament and are subject to the standing orders of the parliament. Those here today would note that these proceedings are being transcribed by Hansard. Witnesses should be guided by schedules 3 and 8 of the standing orders. Today's public hearing will form part of the committee's consideration of matters for its inquiry into the long-term financial sustainability of local government and other issues arising from the Auditor-General's reports Nos 2 and 13 of 2016-17. Before we commence, could we all make sure that we have our phones switched off or to silent.

BABACAN, Dr Hurriyet, CEO, Tablelands Regional Council

BANKS, Ms Samantha, Councillor, Tablelands Regional Council

PARONELLA, Mayor Joe, Tablelands Regional Council

SPIES, Ms Katrina, Deputy Mayor, Tablelands Regional Council

VOYCE, Ms Bronwyn, Councillor, Tablelands Regional Council

CHAIR: Do you have an opening statement?

Mayor Paronella: Certainly. I would like to say thank you very much for the opportunity to present here. It is great to have you come here and for us to be heard. Basically, from our submission, I would like to hand over to Hurriyet, our CEO, who is going to be our main speaker today.

Dr Babacan: I thank the committee very much for this opportunity to present. Financial sustainability is a long-term discussion both in Australia and overseas for councils. We have prepared a written submission and I presume that you have a copy of that. We believe that the role of councils has changed over the past decade dramatically, with top-down and bottom-up pressures for councils including regulatory, structural and funding reform and different expectations from communities. Also, there are changing demographics and community structures.

Local governments, such as the Tablelands Regional Council, have a big impact on their local communities. Our councillors are recently elected—they are just 12 months into their term—and have a vision for their area and want to look at the council beyond their term and make investments now that will take the communities into the decades ahead. Often, politicians are driven in a reactive manner by community demands and the squeaky wheel. This council has an alternative view. They want to go past rates, roads and rubbish—the traditional view of local government—to look at how the council can be an effective leader for the communities in the region. I will touch on this in a little while.

Local governments such as ours play a significant role and value to the community. They play a role in building and sustaining community cohesion and they provide community infrastructure, both social infrastructure and other forms of hard infrastructure. We have done some impact analysis, which is in our submission, of our contribution to our local economy per $100 million invested. Recently, our council adopted a new corporate plan, which has four pillars, of which one of them is Council 2050. We are looking at ourselves as well as looking at what else we can do around vibrant communities, appropriate and catalytic infrastructure and building and developing strong communities. However, there are some challenges to this. We are a community that has predominantly relied on agriculture and resources. In a world of globalisation, for our communities to

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be viable we need to be able to develop ourselves, our villages and our businesses to act locally and think globally and use smart technologies. However, the uptake of that is not very easy. Forty-eight per cent of our population in the Tablelands Regional Council do not have school qualifications. Being able to take up opportunities relies on the social and human capital in our regions as well as our infrastructure as well as leadership.

Defining 'financial sustainability' needs to take into account these broader considerations, because councils play these roles in an invisible manner, whether we like them or not. There have been other inquiries that we have looked at from around the world—such as the Lyons inquiry into financial sustainability of local government in England—that took a broader approach to the consideration of what constitutes 'financial sustainability'. That included things like the strategic role of local government, devolution and decentralisation considerations, managing pressure on local services and the scope of new agreements between central and local governments.

Whilst we try to be innovative and efficient, we believe that productivity gains will take us so far. We are possibly at risk of so much productivity and efficiency that we could risk our levels of service delivery and also managing our assets. We believe that there are increasing levels of requirements from state and federal governments without accompanying costs. Recent examples are the Biosecurity Act and the Industrial Relations Act. We have been trying to cost these and look at what are the implications of these for our budget. There are responsibilities and cost shifting happening to local government without accompanying income and revenue.

We try to have honest conversations with our communities about service levels. I will come back to that in a minute. While we are sustainable in trying to manage a surplus budget, or a balanced budget—a break-even budget at the moment—our council is of the view that we cannot do business as usual and that we need to look into the future, but sustainability is an important consideration. We also have limited ways to raise revenue from our population base because a significant proportion of our population is disadvantaged. When you look at not only Far North Queensland but also our region, you see that we have high levels of disadvantage, which is evidenced by the SEIFA disadvantage index. The average for Australia is 1,000. The Tablelands Regional Council is 932. That means that we are more disadvantaged than the average.

Our population is ageing. In 10 years time 35 per cent of our population is going to be over the age of 65 and is going to require different types of infrastructure and services. As I said, in regional areas where service densities are not strong, local government ends up playing a role—not necessarily always a service delivery role but definitely a planning role. We do aged care as a council, but we cannot grow that because of the financial implications. We take on roles that other councils in more condensed geographic locations may not take on.

In 2015-16 our budget was $55 million. Our rate increase was 4.5 per cent. When we increase our rates by one per cent, we are increasing it by about $125,000. It is not a lot of money, but it has a big impact on our community. When you take bigger councils, a one per cent increase in their rate yields greater returns. Seventy per cent to 75 per cent of our budget is derived from rates and other charges. In our utilities, we try to do user pays and make money. In some areas we do and in some others we do not. Grants comprise 18 per cent of our revenue. We think that can do better there. I am revving up our grants. I am going to talk about the idea of enterprise in a minute. We have 12,245 ratepayers. In our last round, approximately 10 per cent of our resident base struggled to meet their rates. We have plans. We look at the sale of property and confiscation as a last resort. We try to help our communities. Ten per cent is a significant number of residents who struggle. We also give pensioner discounts. Our ability to raise further funds from our rate base, with small increases of three, four or five per cent, may be manageable but, as I said, that does not yield a lot of income given our rate base.

What are some of the challenges? The analytic challenge is of local participatory leadership versus service delivery. One goes to the core of democracy. It is councillors who are driven by community aspirations, where they want to go, and the need to invest money for the immediate and future needs of our community versus an instrumentalist view where we are handed the responsibilities of service delivery. Those services are important, but often participatory processes are devalued and not considered as part of financial sustainability, yet they take up time and they take up resources. We often tend to focus on the service approach rather than where we want to go. Participatory processes are many a time devalued compared to instrumentalist approaches. That is a philosophical approach that has an implication on financial sustainability.

The second area that we would like to touch upon as a challenge in terms of financial sustainability is the capability of our elected representatives. We have had numerous training opportunities for our councillors. The majority of our councillors this term are first-term councillors. In

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the past we have had major and significant issues with management and interventions from the state government. The capacity of the leadership is important in leading, planning and financial sustainability. This is accompanied by the capability of the staff—the role of the CEO, the competency of the staff, the technical and other capabilities of the staff—to have engagement, to have efficiencies and service levels. We believe that these capabilities, of both staff and councillors, are critical in financial sustainability.

I have already touched upon the measures of sustainability. We measure our operating surplus ratio and our debt ratio. We have really tried to improve our asset ratio and net financial liabilities ratio. As I said, we would like to see a greater number of measures being included in those ratios. There are lots of examples from different parts of the world that we could look at.

Secondly, our capacity to generate revenue is limited. We had a discussion around the budget this time about the value of a deficit budget versus a surplus budget. It goes to the core of Keynesian and other forms of economics. We are looking at: do we cut back service levels now to invest in the future? Do we have a surplus budget at all costs? Do we invest now for a couple of years and borrow? We have a cautious approach to debt. We have a very low debt ratio of council and councillors are reluctant to put future generations into debt. How do we implement a user-pays principle across all of our services? That has not been an easy conversation. There are no easy solutions, but these are at the core of discussions around the table about our budget this year.

We are also looking at how we improve our grants. We have looked at opportunities for borrowing. The Northern Australia infrastructure funding is a $50 million minimum funding. We have looked at whether we could borrow. We have a number of plans. It is a low interest rate. It is almost free money when you look at it. It is much lower than the banks, but there are conditions to borrow $50 million. It is a lot of money. There is the capacity to pay, no matter how little the repayment is—they will tailor it for you—but there is also the way that funding is defined.

I am using that as an example to give you an illustration that borrowing is not always the answer. We have a number of economic development initiatives that we would like to invest in. We may need up to $30 million. When we looked at that, they were basically interested in economic development as an objective, but they will fund only connectivity. You can only get money for roads, airports—those sorts of things. When I asked, ‘Why are the kinds of things that we want to do in economic development not included?’ They just said, ‘It’s not.’ The eligibility and definition of what constitutes economic development across Northern Australia is reflected in the funding. We are not really wanting to borrow for roads. We want to borrow for revenue yielding—debt, if you like—but the funding guidelines do not enable that. We have gone off that idea.

Also, with both state and federal government for large infrastructure, when you apply for too many little grants that burdens the organisation. You have to apply and then you have to manage them, implement them, acquit them and report them. You are just churning over lots and lots of little grants. The large infrastructure projects have to be shovel ready. Many of the big projects—Building Better Regions and so forth—do not include the cost of planning and the concept and technical design. In one of our current major works, that cost is nearly $1 million. We have to find $1 million to get a concept and detailed planning before we can even apply for the grant. We are recommending that that part be included in infrastructure funding as the first stage in a milestone in a deliverable so that we could include that.

The second part of it is that the majority of these large infrastructure grants require a 50 per cent minimum co-contribution. That is also a big ask for small regional councils that want to invest. They cannot find the 50 per cent. If you want to have a $20 million investment, you have to find $10 million plus a couple of million beforehand to get it shovel ready. Many times councils such as ours cannot bid for those projects. It really disadvantages us. Also, in-kind contribution is not often recognised.

I want to touch upon the issue of enterprise. We want to be an enterprising council. National Competition Policy is quite strict. Many of you would be aware of that. There are strict conditions by which councils can set up enterprises. We have been looking at models from the rest of Queensland and Australia. We are about to have a big workshop on that. There is a lot of red tape about how you set up an enterprise under the Local Government Regulation. We are going to get legal advice. If we are looking at sustainability of local governments, local governments can do a lot for communities, business, state and federal governments as a service provider. That will build our capacity. It will enable us to earn resources. It will enable us to create local jobs that could be done remotely or in other ways.

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We do small-scale work for state governments such as building roads for Main Roads, but it is not of a scale that can yield significant income to us. I guess what we wanted to explore is: what is the possibility of reducing some of that red tape to enable councils to be enterprising councils? It is possible now, but there is a lot of process. One of the things we are exploring is: how do we earn income outside of the race, outside of the traditional forms of revenue outside of grants?

Another big issue—and I would like to see if it could be brought—is about the impact of amalgamation and deamalgamation. I know governments have their reasons for doing that, but Tablelands Regional Council lost huge capability as part of deamalgamation. We lost significant resources, we lost technical expertise and we lost money as part of deamalgamation. Prior to that, amalgamation also had huge impacts. These impacts stayed with the council for decades. We are not a big organisation; we are a small rural regional council. The impact of this has been great. The service levels that were there have been disrupted. Now we are looking at: what is the service level this council engages in? That is not an easy process when you have lost the majority of your capability. We are providing service, but we have not been able to map it; we have not been able to quantify it. We are on that exercise now, but it has taken a good part of 12 to 14 months. I am new in my role and I have been pushing and looking at costing those service levels—so what is a low service level, what is a mid service level and what is a high service level? Council had this before the amalgamation. With deamalgamation they lost that capability, so we are back to scratch. Those sorts of structuring and major organisational changes impact on financial management capability because it takes a while for you to recover, understand the lay of the land, recost it and rebudget. Having said that, we are not starting from scratch, but it still has an impact.

Asset management is in a similar position. We have ageing infrastructure—this is not news to you—in this area. Asset mapping and cost data is not very good generally across the region, although some councils are better at it than others. We have appointed three or four assets officers which we did not have. Basically what we are doing is mapping our assets—the life and condition of our assets—so we are in a better position to manage and look at our capital works. As we do that, as we uncover more assets, the depreciation impact on our recurrent budget is huge. Depreciation is about 25 per cent of our budget at the moment. We are looking at what we can rationalise in assets. How can we better estimate the life and condition of our assets to be able to effectively invest? That is a big ask; it is a big job. I am hoping that we would have a better idea of especially our underground assets by the end of the year. Again, I have a team of people working on that and lots of data was lost at deamalgamation, so some of what we are doing is reinventing the wheel.

One of the issues for us is: are we at risk where the assets fail at a faster rate than we can afford to replace them? That is a big issue and we are trying to be ahead of the game. That is not an easy decision. Also many of our assets, even if we want to rationalise them, do not have a big market value. Some of them are old or nobody wants them. Even raising money through some of those—we also have a lot of assets that have pretty much been run down that need to be written off, with very limited return.

One of the models we have looked—and FNQROC is here. That started a good process of shared services, that is, where we can do procurement together. Also I have talked to a number of councils, especially neighbouring councils, about sharing things—sharing backhoes, equipment and infrastructure—or even working together. We have progressed this a little bit but not a lot. This is a complex issue because of that economic impact that we have for our local communities. If we do a shared resource, our communities do not see that they have a bigger pool of projects to bid for; they see it as projects going out. There has been a lot of pressure on our council around, 'Hey, if you do shared services, we're going to lose local jobs and local contractors.' People are already struggling, so shared service approaches have been progressing very slowly.

I want to quickly recognise the definition of regional, rural and remote. I have the definition. I will not say it here. Our towns fit into all of those. Basically, regional and rural means we take on greater responsibilities. The cost of doing business is different in rural and regional areas. I think that needs to be acknowledged. Our ability, our population and our geographic spread mean that we are not able to raise the same kind of money from our population base.

We move to make a number of recommendations. In the last 12 months we have really examined ourselves. We have looked at our sustainability. We have looked at the pillars of Council 2050. We are looking at ourselves into 2050 and what we need to do in terms of not only technological innovation but also process and other ways of organisation, looking at efficiencies and productivity. We have looked at our assets management base and we have looked at the ideas of an enterprising council, and we are about to recruit a manager of enterprise. We are at the early stage of our journey. We are looking at co-management with our communities and our private sector to manage our community assets. Again, this will be a new model and we are getting some legal advice around that.

As an innovative council we are trying to innovate in areas where we have influence—our sphere of influence. However, there are many areas where we do not have influence. Most of our recommendations go to state and local government because of the impact and regulatory and compliance framework.

We would like to look at some untied funding from state and Commonwealth government to local government. Works for Queensland is an example of that. We did submit projects against it, but it was not strictly tied in that sense. Also, could local government be a service provider to state and Commonwealth governments? We can deliver services on the ground which would avoid duplication of state and federal government setting up services and other infrastructure in the regions. We would like to recommend that state and Commonwealth governments recognise the burden of infrastructure and develop infrastructure funding programs that require reduced or minimal financial co-contribution, recognise in-kind contribution and include the additional concept and design in the funding eligibility.

We would also like to see an equitable tax base. At the moment the estimation from the Local Government Association is that three per cent of taxes goes to local government. If this was boosted to five or six per cent, that would really help local governments out so that there is a more equitable tax base, given that we are taking on greater responsibilities in service delivery from both state and federal government perspectives. We would like them to revise the competition policy and the enterprise conditions in the act and the regulations to enable local government to be more enterprising and perhaps introduce seed funding that would enable the establishment of enterprises by local government which are revenue and profit earning.

We would like state and federal government to recognise the additional burdens faced by regional and rural councils and we would like an equitable grant to regions of the funding, including regional weighting on major grants such as the financial assistance grants. We are also wanting to see some more innovative financing solutions such as attracting external and private sector infrastructure investors to local government, facilitating environments—governments can probably do this for low-cost finance and large-scale borrowing—tax concessions that will attract private sector investment to local government areas.

We would like to also look at how state and federal governments can support local governments with more effective procurement of goods and services and also to look at the cost shifting and the burden—administrative and compliance burden—on local government and the invisible costs being made visible in funding arrangements.

Finally, we would like to put in a recommendation around building and supporting capabilities of our councillors and develop a strategy to attract talented individuals with local leadership capacity to local government. When we advertise positions we find it hard to attract strong candidates to regional areas because we pay less than the bigger cities and also our own capabilities, both of our local government elected leaders but also our senior executives of local government. There needs to be a lot more work done to support that capability, which would have flow-on effects to financial sustainability.

CHAIR: How long have you been working with local government?

Dr Babacan: I have worked in local government in the past, but in this local government it has been 6½ months. I was with the City of Melbourne in the past. I have also been a consultant to local government. I have probably done over 50 projects for local government in the last 20 years.

CHAIR: Mayor, would you like the questions to come through you?

Mayor Paronella: Just as you wish, thank you.

CHAIR: I will throw the first one up to you, Doctor. The Queensland Audit Office report No. 2 of 2016-17 found that most councils plan poorly for the long term. Could you outline for the committee what long-term planning your council undertakes and what resources and costs are involved?

Dr Babacan: We do a number of things. First of all, we have a long-term big vision. Often the vision is discounted, but that vision sets the framework for how we are planning for the rest of our assets, our yearly expenditure and our 10-year forecast. We have a number of mechanisms to do the planning. First, we have our council planning mechanisms, which is discussions about what are the service levels, what are the assets that we want to maintain, what is the community engagement component because we also consult our communities extensively, so that participatory element is important. What are the aspirations of our community? All of that comes back to executive leadership for discussion and operationalising. We have been doing yearly budgets, but we are moving to three-year capital works budgets so that we can look at it in a greater period of time rather than a year. We have 10-year forecasting. We have put in money for our assets planning. We have currently appointed an assets coordinator and for different classes of assets: an assets officer for water, for infrastructure, community and fleet. These are mapping our assets.

We have developed our assets rating and attributes criteria. This has been workshopped with our councils. What is important? How do we prioritise our spending around our assets, because assets are a big part of our budget? That is all planning. If someone says, 'There is a pothole in my road here as opposed to here,' how do we prioritise that? We have developed a tool called star rating and we are finetuning that. What are the attributes that will give one community more priority than others? We have come up with eight or nine attributes for each asset class: safety, condition of the road and population—a whole range of factors for our fleet, for our community facilities, for our roads and for our infrastructure. They have priorities and weightings built into them.

We are now moving to a planning tool that we hope to adopt by the end of the year that will enable us to prioritise, which will then feed back into our budgeting process. We have planners—town-planners, governance planners, the senior executive team and our financial team. All of this goes into our planning processes. These are significant resources. Not all of our time, 100 per cent, goes into that planning process, but a significant chunk of our time does go into that planning process.

We are trying to get ahead of the game, as I said. By next budget we would be looking into three-year capital works cycles. We still do our 10-year forecasting. We go into a surplus in our outyears much more so than the inner years, so we are operating to those kinds of considerations. We are also looking at where we need to go. What needs to change? What do we do that is not business as usual, because if we continue this way we are not going to be really sustainable in the long term?

CHAIR: Is the council broken up into portfolios? Do you have local councillors as chair of those portfolios? Is that the way it works?

Mayor Paronella: No, basically, everything comes through the table as such. We do have very specific projects where councillors are in charge of that committee. That is a process that has just been started in recent months. It is all part of our vision of what to do for the coming years to make sure that we are sustainable. We are small enough that everything can certainly come to council and council looks at everything as a whole. I have a very versatile council in terms of age and professions. To give you a good indication, I am the old man of the council but we basically cover all of the decades from councillors in their 20s right through to me in my 60s.

We feel that we cannot stick to the traditional local government way that it was run. We feel the only way we will be sustainable is to create economic development within the region but also from within council—not to go into opposition in private enterprise but certainly to give council some degree of sustainability with an income. We are exploring all of the avenues from right across the agricultural sector to tourism and that sort of thing where council can certainly get behind.

The biggest problem we have within our community is that we do have the ageing community, as Hurriyet has certainly highlighted. A lot of those constituents in particular still think we should be roads, rates and rubbish and that rates should go down and not go up—that sort of thing. We believe that we are a business and we have to treat council as a business, being the biggest employer in the shire. We must be able to sustain ourselves that way with an income. With all of those different things there, we are really putting most emphasis on the committees that the councillors are in charge of to try to find what those possibilities are.

CHAIR: You mentioned the appointment of asset managers. Is that the first time that council has had asset managers?

Dr Babacan: My understanding is yes.

CHAIR: Joe, how long have you been there?

Mayor Paronella: Just 14 months.

CHAIR: Is there any understanding between the council as to why you have not had asset managers before?

Mayor Paronella: I was a councillor pre amalgamation, from 2000 to 2008 on the Atherton shire, and I was not in council from 2008 to 2016. When we came in there, there was one person doing assets and finding a lot of assets that had been there from the previous council. Really, it is

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something very new for the organisation. It is something that we have a major emphasis on that we need this. Hurriyet came into the position six months ago. We have these people entrenched now and we are making it a very high priority that we have to get this in place.

CHAIR: Has there been a focus on depreciation of your assets in the past, or is it just getting to a stage where that is what you are focusing on now?

Dr Babacan: My understanding is that in the past there have been some estimates and depreciation has been included in the budget. In the last two years they have tried to get reports. They have commissioned a company called Australis that comes in and does some assets valuation and uses some sector benchmarks without really a thorough understanding of the real nature of our assets. They do some selected, I guess, valuations, and I have not been happy with that. Each year, that depreciation factor has gone up without really a thorough understanding of the nature of our assets. Some of our assets are in good condition and have longer lives, some of our assets need to be written off and some of our assets need to be accounted for in capital works. Because of this, we have put in place these assets officers.

The first part is data gathering. Some of the data has been lost through that deamalgamation process. Some of it was never captured, ever. That is my priority. I have scheduled in three workshops with councillors before the next budget cycle for September and October of this year. We are having a whole workshop and series of work around depreciation. We will be calling in specialists to work with us. Going into the next cycle, I am not happy to do the depreciation of what we do currently because I think that is not right.

That has been a measure there. The auditors have been happy with that because, in the absence of anything, it is still a rigorous methodology and we do apply sector benchmarks, but what we are trying to do is get a grip on it and get a good handle on what our assets are, map them, look at their condition, look at their life and then look at what needs to be rationalised. Because of that, the assets officers are really important. The final impact of that may or may not be that drastic but at least we will know.

To us, they also link up with our capital works. At the moment, capital works are just plucked out of the air based on need. Again, the star rating is going to help us develop prioritisation of our capital works. This all links to service levels. All of this is going to council in the workshop by September-October, and I have really been pushing my staff to try to finish the work around this. I understand that it is the first time in the history of this council that this degree of rigour has been applied to asset management.

Ms LEAHY: You mentioned that state and Commonwealth governments support local government with effective procurement of goods and services. What sort of support were you referring to? Can you give me some examples?

Dr Babacan: I know that in our local area where we have to buy materials and resources, FNQROC buys certain materials—say, for road building, construction—and we are able to get it at a lower price, up to 30 per cent cheaper in some instances, because of economies of scale. The large number of councils coming together are able to negotiate better prices.

I have worked in state and federal governments as well. When I think about the state government procurement processes and the federal government procurement processes, greater economies of scale could be gained. I was wondering whether there were any opportunities in which the state and federal governments could procure—whether it is office supplies, community and other services or construction services that we rely so heavily on. There may be ways in which governments can work with us to better procure.

Ms LEAHY: Is the FNQROC an extension of Local Buy?

Dr Babacan: No. Local Buy is separate. FNQROC is a regional body of approximately 14 councils. We meet regularly. In some areas, because the local government is affected by the high cost of material, they have developed in the past some ways to procure certain things. We have Darlene here who is our manager for FNQROC. They have been able to procure, for example, gravel or other kinds of things that we as a council on our own would have to pay 25 to 30 per cent more for. It is small scale; it is not in everything. We do procure a lot of goods and services. That is only in some aspects.

Ms LEAHY: Do you use the LGAQ Local Buy?

Dr Babacan: Yes. We use the LGAQ Local Buy for some things.

Ms LEAHY: With your own procurement, do you have preferred suppliers lists?

Dr Babacan: Yes, we have a preferred supplier list. We assess them against certain criteria. We have a procurement and tendering process. That has been revised recently. The policy has been tightened up. We have a preferred supplier list for a number of contractors and that gets assessed by a whole set of criteria. It gets presented to our council for approval and we adopt that.

Ms LEAHY: Does that help with keeping local contractors and local jobs in your local area as well?

Dr Babacan: Yes, it does.

Ms LEAHY: Is there a weighting?

Dr Babacan: There is a weighting. In fact, our preference is to go local and we have a weighting up to 20 per cent. It depends on the scale. It is scaled up. If it is smaller, it is 10 per cent. We only go outside the region where we cannot procure that expertise internally within our region.

Ms LEAHY: How do you balance the value for money with that?

Dr Babacan: Price is not the only criteria. We do look at expertise. Cost is one factor. We look at local. As I said, there are about eight or 10. We look at past track record and those sorts of things. Sometimes we have approved things that are dearer but the other factors—which all have weightings—enable them to come up with a score that presents value for money. We do justify that and we present it to council.

Ms LEAHY: Thank you.

Mrs LAUGA: Do you find Local Buy effective? How do you find that it works?

Dr Babacan: We use Local Buy for certain things. Again, we always go locally first so our first preference is not Local Buy. At the moment, I am in the middle of trying to procure a contract for a particular project. We have not been able to find a person locally. We have gone to Local Buy. The Local Buy coordinator for our region is really effective. She stays in touch with us regularly and enables a lot of information. In fact, she is emailing me at least once a week so I am really impressed with that. It does offer a point to go to when we run out of options. Price-wise, it varies. Sometimes they are cheaper than our locals; sometimes they are not. They have a breadth of services that we can procure. It is a good service to have.

Mrs LAUGA: In the Auditor-General report *Local government entities: 2015-16 results of financial audits*, the Tablelands Regional Council does pretty well. There are quite a few green dots there, which means you are going well. The green dots are in the internal controls area, particularly around control environment, risk assessment, information and communication, and monitoring activities. According to the Auditor-General, as a council you are doing well with your internal controls.

What sorts of internal controls are you using that are giving you these results? We have been talking to councils that have had lots of green lights and we have been talking to councils with lots of red lights. We are keen to understand what challenges there are that are giving those councils the red lights and also what innovation and measures councils are using that are giving them the green lights.

Dr Babacan: This is on the top of my list. We have internal audit processes, as you are familiar with, and we have a three-year internal audit and risk plan. This is the first year of the next three years. Broad risk internal controls are the first agenda item for this year. I have just met with our internal auditors. We have done a survey of all of our staff and some councillors have been selectively surveyed. Internal auditors have come in and have looked at our broad risk and internal control process. They gave me the results yesterday and I am very thrilled. Our internal auditors are a company called Pacifica. They do a lot of work across local government and they said that we are really doing well. They reiterated that from last year for this year.

I think there are a couple of factors that are successful. Firstly, councils have gone through bad times. Our local council has gone through some problems. It has encountered problems. It has had issues around controls to do with councillor interference in operational matters that have not been controlled, so there have been those sorts of political influences and also internal influences. Bad history has led to good practice. One important thing is that we have a very strong policy framework.

Secondly, the executive leadership looks at risk and fraud at every monthly meeting and we go through and look at even minor things. If there is an error of $1,000 in a $500,000 budget, we look to see why that is happening, so there is a greater scrutiny by the senior executive on risk and audit. Thirdly, we send out the message of zero tolerance for any kind of fraudulent activity. When it is there, we clamp down on it fast, we investigate it and we basically look at measures.

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Another factor is that we have regular training. For example, we have just finished a round of public interest disclosure training of all of our staff. MacDonnells Law has come in. Councillors have been put through the training, as have all of the staff. It is compulsory, not negotiable. We have tightened up the controls around our financial delegations and procurement methods. In the past, again, the processes were quite loose.

One area that we are in the process of tightening up is the way we do contracts. At the moment the contracts are not coming to a central pool. We have appointed a risk and contracts person to work with the governance officer, so we will centralise those and tighten those up. That does not mean that we have fraud there; it just means that it is not as good as it could be, so I have put internal systems in place to manage that.

Last but not least, coordinators, which are middle to lower management, also pass on that message to staff around day-to-day operations. We do send the messages at the higher level, but at the coalface the foremans, the coordinators and the supervisors also reiterate that. All of those factors together have led to good internals, but also staff happiness is an important part, especially around fraud, so that there is no rationalisation of 'the organisation owes me'.

We are about to embark on a values discussion throughout the organisation so that we can be values driven. We have values but they have been left from five councils ago, so staff ownership of those current values is not there. We have recruited a HR manager so that all of that area is also tightened. We did not have a senior HR manager in the organisation. We are looking at, I guess, a range of factors in the organisation that look at financial controls, quality controls—we have a quality person now on board—risk and fraud controls and then education and engagement of both our councillors and our staff. We are sending out these messages and a culture of ethical and transparent and open governance. We take that really seriously.

Mrs LAUGA: That is wonderful. Thank you for that. Simply, what advice would you offer to other councils that might be getting these red lights and struggling with their own internal controls?

Dr Babacan: I think an important factor is to review the leadership around this, and leadership is really important to send out the messages. The second part is the systems and processes. You will always get low-level fraud and you try to mitigate those, but if you set up your systems and processes in such a way that there are appropriate checks and balances and controls you minimise the risk of any kind of fraud or lack of integrity of the process.

Mrs LAUGA: Thank you.

Mr PERRETT: Thank you for coming in. I want to talk about intergenerational loans funding and the council's appetite for that. From my observations over a period of time, councils have been very good at building infrastructure within communities over many decades, never thinking about the day that it needed replacing. Obviously as your asset management processes improve, you are probably finding more and more across your council area—some perhaps you did not know you were responsible for—and that ultimately places additional pressure on your funding of depreciation. In other words, in previous generations there was no funding of depreciation and it appears to me that generations now and particularly councils are burdened with that. What are your views around increasing your borrowing position—obviously you do not have much, and that was indicated earlier—and making future generations pay for the services and particularly the infrastructure that they are going to benefit from?

Dr Babacan: We are going to ask our young councillor to respond to this.

Councillor Voyce: Thank you for the question. I also want to make a couple of comments leading up to that with regard to a couple of Jim's earlier questions. First of all, you talked about poor planning in the past and the audit's findings around that. I think all governments are at risk of that based on political cycles, and it is not just local government that is beholden to that. One of the examples that Hurriyet talked about before—and it leads into your question, Tony—is the Working for Queensland funding. No council is going to say 'no, thank you' to three and a bit million that we can invest in community infrastructure and assets that will be utilised and are in need that we do not have funding to fund today, but we have to wear the depreciation and we have to wear the renewal and maintenance costs. Talk about us having poor planning: basically in three seconds in the paper we find out that we have funding from the state and then we have to figure out how we are going to spend it within six months or thereabouts. Talk about poor planning! You are absolutely right: with regard to the challenges that we are facing and the conversations that we are having around the table today about depreciation, when we came into council I am fairly sure that the balance sheet said that we had about $450 million worth of assets. Today we have estimated about $750 million worth of assets.

Mayor Paronella: And we are still finding them.

Councillor Voyce: We are still finding more, so, yes, the decisions that have been made in the past are now a burden on our council to make decisions for the long term and the future. With regard to your question towards borrowing, as you have highlighted, our council does not have a bad debt-to-asset ratio. My personal view is that there are good borrowings. Certainly if we have an opportunity where we can invest in assets or infrastructure that will pay dividends to the community in the long term, whether it is through social cohesion or economic benefit, we absolutely should be having those discussions about borrowings, as long as we have the community's capacity to pay in the long term. That comes back, again, to economic development. How do we grow our community's capacity to pay? We have one really significant lever for revenue—that is, rates—and the community do not like paying more rates and the distribution of taxes and other financial resources to local government with the increased evolution of roles and responsibilities is really inequitable. It is a tough business model for us to manage. We are social enterprises. We have to act as a business, but we have the heart of the community at the centre of our business. No other business would do what we are doing. I would say—and I would speak on behalf of my councillors—that there is an appetite for debt, but it will be a fairly considerable assessment as to how that will benefit the community in the long term and the community's capacity to pay for that, given our demographics and our limited economic development.

Dr Babacan: One of the things we have looked at is, for example, halls that have not been maintained for 10 or 15 years which we basically cannot even repair. It is important for us to look at what we rationalise, what is needed and the generational implications. In this budget going in we had a discussion with council about the appetite for risk and the appetite for debt. These were, I guess, first-time discussions in the history of this council. Our councillors have said, 'Yes, we're happy to look at debt, as long as we can pay and as long as we've done the groundwork around the need and the commitment that it's going to mean for our communities into the decades ahead.' As I said in our submission, that is a cautious approach to debt but we are mindful of what we are carrying now. We really need to resolve what we need to keep, what we need to invest in, what we need to rationalise and then make some clear decisions.

With regard to the five projects, if you like, that councillors are leading, we were asked a question about portfolios. We do not have portfolios but we have signature projects. One is Smart Council 2050—that is, how do we get our own house in order and become smart, both technology-wise and otherwise? There is a working group on community, a working group on health and wellbeing, a working group on population and a working group on economic development, and each of the councillors leads one of those. Some of those do involve new projects; some of those do involve ambitious outlooks that we may have to borrow for.

We have called for all of our staff, regardless of the level—whether outdoor or indoor, labourer or manager—to come and sit with councillors around these working groups and inject ideas so that we can then develop priorities. We will then take those out to community and then make a decision about whether we borrow for it. We are taking ourselves and our staff through a big process—very ambitious and non-traditional. You do not normally get a labourer coming in and sitting with the mayor and talking about economic development, so we are taking a bit more of a participatory internal approach. It is going to take us a while to get there, but that will lead to a discussion because we are sifting through and really debating each of those investments that is needed in those areas which are part of our new corporate plan—the pillars of our corporate plan—and what investments and borrowings we need and what we have to rationalise. Once we do our service level and capital works, all of that will come together and will enable us to better make decisions. It is a planned approach rather than a 'jump in, let's borrow money' approach.

Mr CRAWFORD: I am interested in the grant conversation that we had before, and I have been asking other councils about this as we have been going along. Obviously you have your Works for Queensland and a number of other grants. Does TRC have a particular person on staff who focuses on grant applications who is constantly out there looking to see what can come from the state, from the feds and from other places? If so, is that a new person? Have they always been there or is that something new?

Dr Babacan: We have a person who has been there two years part-time, two days a week—a middle to lower level officer. I have just changed that. We are in the process of advertising a strategic funding officer higher level, full-time. I am also bringing in performance management for all of my staff—that has not been there—and that performance management will have grants income as part of the KPIs of all senior staff in the organisation. We are putting in a resource. We are trying to streamline the process. We are revising the policy for the grants process internally. At the moment it is just ad hoc, so I have commissioned someone from LGAQ to look at our grants process internally. How do you apply? How do you decide? In the past projects have been applied, won and given back to government because we could not implement it. That is poor planning. I do not want those sorts of things in the organisation. I want us to plan carefully. I want us to develop priority projects or areas where we go looking for money. I want us to have the capacity to manage and deliver on the projects. If you get a bad reputation and do not deliver to government or our stakeholders, it is not a good outcome.

Having said that, we are generally very good at grants delivery. Some 18 per cent of our income is formed by grants, but I believe that is low. Most of that is in infrastructure grants. I think we can find service and operational grants. I have run other organisations in which there are other pockets of non-traditional money—philanthropic money and probably private sector money—so we are looking at how we ramp up our grant element much more strongly in the next year.

Mr CRAWFORD: Good. You said earlier that you come from the City of Melbourne.

Dr Babacan: A long time ago. My last job was setting up a university across the nation.

Mr CRAWFORD: Oh, was that all!

Dr Babacan: A private sector university. Bill Clinton was the chancellor.

Mr CRAWFORD: All right. My next question is about recruitment of staff and appropriate staff. Different councils have talked about how hard it is sometimes to get the right people depending on geographic location, remuneration and those sorts of things, so I guess my question is to you, Joe: how did you get her here? How does TRC grab someone like that? What was the process you went through?

Mayor Paronella: I ask that question to Hurriyet as well—why us?—and she said that she had checked us out. She wanted to come back to North Queensland. She checked us out and saw an enterprise—for use of a better word—that she could really work with and go forward with. I would like to think part of it was what she saw in the expertise of our councillors with what we are doing. When we did the interrogation through the interviews it was a done thing from us, but also Hurriyet wanted to come to North Queensland. She found us. As a council we went out and said that we ooze local government knowledge within our organisation. The last thing we needed was someone who was just total local government to come in to be CEO. We certainly did look at what Hurriyet could bring to us and I think the result in terms of what you are hearing today certainly shows here.

If I can quickly summarise, the organisation that we as councillors came into and inherited 15 months ago—or the organisation that will be there after 1 July this year—is a totally different thing. The improvements in the way that the organisation works are very obvious to us in terms of the streamlining and the professionalism that Hurriyet has identified and been able to bring in. It certainly comes from her expertise in the background. To answer your question, we chose her, but she chose us.

Dr Babacan: Councillor Katrina Spies would also like to say something.

Councillor Spies: Thank you. I had the honour of being the chair of the recruitment committee for the CEO along with some fellow councillors. I think the key was very much that we did not take a traditional approach to the recruitment. We looked for leadership and we looked for someone who could lead the cultural change, and a very strong part of our reasoning was that we want the best. We felt that in a lot of cases people were settling, saying 'We can't afford to pay for the level of expertise. Why wouldn't people want to come here?' We kind of flipped that and said, 'This is the organisation we want to be into the future. This is the sort of leadership we're looking for.' The whole recruitment was not traditional. We used different methods of recruiting. We had a different—

Councillor Voyce: We asked for a 90-day plan as well as a video.

Councillor Spies: It was a very non-traditional methodology. We did get a lot of rolling of eyes and whatnot. If you are committed to your paradigm shift and if you are committed to the vision, you can find a way through it. We are very grateful that we did recruit Hurriyet. We are also very proud to say that one of the other people who has a lot of local government experience and expertise, as a councillor, as a CEO and in Environment and Heritage, is the chief operating officer and 2IC to Hurriyet. We are very grateful to have the leadership operationally within the organisation to help us achieve our mission.

Mr CRAWFORD: You went out to hire one person and ended up hiring two, did you not?

Councillor Spies: No, we did hire one person and then other positions became available. That person applied for those positions as well.

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Mr CRAWFORD: I remember you telling me about that.

Dr Babacan: We have gone through an organisational review and restructured and pretty much filled most of our senior leadership positions. In the last month I have been recruiting. In some areas it has been easy—infrastructure has not been hard at all. In the softer areas, like the manager of community services, we have had a hard time attracting people. Some positions have been easier to recruit into and others have not been.

Mr CRAWFORD: Is that because of the quality of the applicants?

Dr Babacan: The quality of the applicants, what we are able to offer and people not necessarily being able to come.

Mayor Paronella: If I may make one brief comment—and this is really to pay a compliment to my fellow councillors—we did not go through a recruiting agency to look for our CEO. It was done totally in-house. My councillors convinced me that we did not have to do that and that we had the expertise to do it within. It cost us a pittance to go out and recruit for the CEO. It was basically because of the expertise of our councillors and the confidence they had within themselves that we did that without using the so-called experts to find ourselves a very good CEO. Everything we are doing we are trying to do off our own bat. As I said earlier, we have a good lot of expertise through the councillors with a lot of confidence that we can do the right thing and do it well.

Mr KNUTH: We play a part as well as legislators. Hurriyet, I think you said that there are legislative pressures from the state and federal governments. Could you elaborate on those?

Dr Babacan: It is not direct pressure as such. When something like the industrial relations legislation comes out it has a whole lot of conditions. Those conditions have costs and implications for us. The Biosecurity Act has come out recently and councils have to do a lot of things under that. It has a lot of weed management and pest management provisions. You are familiar with our navua sedge issues. Under the Biosecurity Act we have lots of responsibilities. The state has put money into biosecurity but it does not get given to councils. It gets given to landcare groups. Yes, they are all part of the equation, but we have to carry significant responsibilities under an act like that. That is not recognised. We have the find the resources from within, whether it is for planning committees, the various obligations or the enforcement. All of that has a cost to council and it is invisible. It puts pressure on us in an indirect way to meet those obligations.

Mr KNUTH: What year were you first elected to council?

Mayor Paronella: In 2000.

Mr KNUTH: For the benefit of the committee, could you elaborate on the differences in operational terms for council between then and now? Was there more red tape back then or is there more now?

Mayor Paronella: I was the first of the four-year termers to be elected in 2000. I was elected to the Atherton Shire Council. We were the second smallest rural shire in Queensland—524 square kilometres. We had six councillors and two divisions and there was also the mayor. I was there from 2000 to 2008 and then I ran again in 2016 for the mayoral position.

The biggest difference I certainly found was the amount of funding and the availability of the funding that came through. It is not that we totally relied on the funding that seemed to be just there in the first eight years but at the same time we were roads, rates and rubbish. From the red tape side of things, what was in-house did not really seem to be a problem.

The biggest problem we certainly find now is what we are allowed to apply for in terms of grants. There is certainly the Work for the Dole side of it and all that sort of thing. There are so many things that are available out there in the community. Works for Queensland funding was absolutely brilliant for us. We read that we got that money in the *Cairns Post*. We were not even aware of that when we first found out about it.

The red tape that gives us the opportunity like a private business to put on apprentices and use people within our community and the changes to the NDRRA made recently have been very good. It was those sorts of things that were just there before that seem to have disappeared in the eight years that I have been out of council. There seems to be more red tape now and it would certainly be a lot easier—

Mr KNUTH: With regard to council operations, you have your rates but seem to be continually looking for grants to try to keep the council functioning so you can bring about a return to the community.

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Mayor Paronella: Yes, that is certainly a major priority. We feel we have a responsibility to our community to do that. We have to look for every available dollar out there to improve. If we were to sit back on our haunches and just be the roads, rates and rubbish business then this council will not be there in 10 years.

Dr Babacan: The grants can tire you. I set up the Cairns Institute at James Cook University. That is solely run on grants. It is like a rat in a maze. You apply for every opportunity to get a grant. You get the grant and it may or may not align with your strategy. You cannot have a rough-shooting approach to grants. It has to fit with where you are going. It has to fit with your corporate and strategic vision. It also has to meet with your service types.

From what I hear from our councillors—and we have another councillor who was on the Herberton shire council—they talk about times when grants were more readily available for core things like roads and infrastructure type services and utilities. That is much less the case now. I am not sure what the change is, but we are struggling to find appropriate grants that we can go for that fit within our strategic plan.

There is also the issue around grant eligibility. For example, the Queensland government advertised $20,000 for unemployed young people. Local government is not eligible for that. We have the community knocking on every door saying, ‘You are not employing my son. You are not employing. The government is advertising $20,000. Why are you not taking them on?’ I had my HR staff cost what it costs us to take on a trainee. For every $15,000 or $20,000 we get we have to put in $30,000. It is not that straightforward, even in terms of grants that are coming to council.

As I said, I will put on a strategic full-time person. We have just advertised that position. We are going to go for it in a big way. I still feel that our grants can be improved. I do not believe 18 per cent is high enough. We will be looking to get more grants. It has to be strategic and be well managed. We have to make sure that we have the capability to deliver what we are applying for.

Mr KNUTH: What do you see as the frustrating side of things when you are trying to deliver for your community? There seems to be red tape or a push back.

Councillor Spies: I think one of the issues is around red tape and also the risk appetite, which is rightly there because we are dealing with public money. In terms of every innovation, it is not something that is easily done. I think the CEO has clearly outlined some of the opportunities—for example, the competition policy. I think sometimes we err on the side of caution, and so much so that we paralyse ourselves and do not do anything because we are so cautious. I think we need to get clarity around some of those things so that we can go out and do things a little more innovatively, within the bounds and requirements. That is one of the frustrations that I find.

All in all, I do not think there are any excuses. There are 10 recommendations that we have made there. We do not see that there is any alternative, really. We have done the costings; we have done the looking out 10 years and if we keep going the way we are going we will not be there. It will be a big black hole. It will not be 10 per cent of ratepayers who will not be able to pay; it will be the majority that will not be able to pay. Something needs to happen. I think anything we can do to help us achieve that will be beneficial.

Mr KNUTH: Hurriyet, can you elaborate quickly on the investment return to council? You said that in relation to funding you need to be able to create your own revenue through some form of investment. Can you quickly elaborate on that?

Dr Babacan: What we are looking at is for-profit—that is, to run various services and businesses and set them up as enterprises. The Gold Coast did that for a while. I think Cairns City Council did that. There are examples where councils can do services either within themselves or set up a separate enterprise, which we can do under the legislation, to deliver additional revenue. The question is: what are our revenue sources? Our revenue sources are our rates and charges—water et cetera plus the rates—but that is limited. With our population base the way it is, we are not able to increase that. You cannot put your rates up by 10 per cent; otherwise we will have a revolution.

Basically, we have to find other ways. You can cut your costs. This is one of the leanest organisations I have worked for in my life. We cannot really gain any more efficiencies. Yes, there might be a few but it is really what we can do around the edges. It is not going to substantially change what we do.

We need to invest part of our money that is going to yield returns either in a commercial sense or in other senses. We have a lot of capability. We have 325 staff. They can do other things that bring in additional income. That does not mean that we would take away from our core service, but it will

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yield returns on investment. As a public organisation there will be some things that we will do without a return because it is in the public good. It is about balancing the public good with being financially sustainable.

CHAIR: Councillor Banks, you have not had an opportunity to say anything. Are you happy?

Councillor Banks: I concur with everything they say.

CHAIR: Is it a great learning experience?

Councillor Banks: It is.

CHAIR: Thank you very much for your time. I guess we will talk again in the future.

Mayor Paronella: Certainly. I would just like to say on behalf of our councillors and the organisation that it is fantastic to come here and present. Thank you very much for the questions as well because they are great. We believe in what we are saying here. We believe that we have to make changes. We honestly believe that the direction we are going is the correct way to go. Any support we can get we certainly will endorse.

CHAIR: Thank you for your input and all the best in the future.

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ANDREJIC, Mr John, Chief Executive Officer, Cairns Regional Council

WHITTON, Ms Lisa, Chief Financial Officer, Cairns Regal Council

CHAIR: Thank you for being here this morning. Do you have an opening statement?

Mr Andrejic: Thank you, Chair. I will give you a little bit of background on the Cairns Regional Council. Cairns has a population of 160,000 people. Population is an interesting metric when it comes to Cairns. As a council we provide services, facilities and infrastructure to closer to 200,000 people on any given evening in Cairns. Whilst there are 160,000 permanent residents, depending on the season there are 30,000 to 40,000 tourists also in the house day to day. In terms of Cairns Regional Council, our revenue is $290 million, 1,270 employees, a balance sheet of $3.8 billion and capex annually of circa $150 million at the moment. We target that $130 million plus big things, is what we agree with our councillors.

In terms of what we are here for, it is all about serving the community. We are local government, so serving the community is at our core. As a council we have been lucky to have stability in the council ranks over the last five years, and CRC is proud of its track record in terms of financial sustainability in recent years. We have had 1.5 per cent rate rises for each of the last three years. That would have us if not the lowest three-year rate rise of any council in the state then very close. That has not come at the expense of services. We have maintained and enhanced our services. We have achieved this by finding ways to do more with less and looking at how we can do better tomorrow what we are already doing today. I am pleased to say that direction came from the councillors five years ago. The group of councillors that was elected five years ago—and largely re-elected—looked at the business and said, 'We need to do things differently.' They embarked on a process of centralisation way back when, and the business is most definitely better for it, the ratepayers are better for it and the services we provide are certainly better for it.

We fundamentally agree with what the Queensland Audit Office has said in terms of long-term financial planning. We would, however, make a couple of observations in terms of what it is like to be a council. There are two observations that we would make, and the first is around cost shifting. Councils regularly have to pick up services. Be it the enforcement of new pool compliance rules or animal management rules, councils regularly have to pick up and enforce those at some cost, and ratepayers have to pick up those costs. Those services have to be provided, but they do come at a cost to council and the ratepayers.

The second one is around grants and grant programs. Grants are obviously important to council. It is fair to say that we have 97 per cent own-source revenue, but make no mistake: grants are still important to us. We as a council would like to thank the state for the recent Works for Queensland program. It has been a wonderful program. There is no red tape in it. It was announced, it was an easy application process and we could hit the ground running. You can drive around at the moment and see a number of projects that were fast-tracked as a result of Works for Queensland funding, so from the Cairns Regional Council there is a big thankyou to the state. It is a good program and it is getting things done out in the community.

Ms Whitton: In terms of financial sustainability, we are lucky as a council that we have quite mature processes and systems underpinning our long-term financial forecasting. It has been a bit of a journey for us, but with the stability of our finance staff, senior management and also, as John said, the council, we have really been able to mature and create a very robust forecast which I believe puts us in a very good position.

CHAIR: One of the key findings of Queensland Audit Office was the link between long-term sustainability and the absence or lack of quality of asset management plans. Do you have an asset management strategy and/or asset management plan?

Ms Whitton: Yes, we do; we have both. I completely concur with the recommendation. Asset planning goes to the core of a robust long-term financial plan. We have invested heavily resource and time-wise in terms of developing our asset management strategy and also the asset management plans that underpin it. When you have a look at the key input into your long-term financial plan, your capex planning and your asset maintenance is all. It goes to the core of what council does and the services it provides to the community. We have invested heavily in increasing the accuracy of it and we have a very long-term focus on it as well.

We have a long-term capital works program that is informed from an asset renewal perspective from the asset management plan. There is a strong focus on our local government infrastructure plan, looking at our trunk infrastructure in terms of growth and servicing future capacity requirements, and also master planning for those non-critical infrastructure elements that we provide, more of the recreational nice-to-have things as well, so building a lot of robustness in that. Understanding asset management plans and the accuracy of them is something that some councils can look at quite differently. Historically there has been a very strong focus on depreciation and getting depreciation right. You have to fund depreciation because that is the core to making sure you can renew your assets.

We have had a bit of a shift in this organisation and put the focus more on looking to the future and looking at what our assets currently are and the state they are currently in, and what we need to do to maintain them now and into the future as well. I think that has held us in a good position. In doing so we have been able to reduce depreciation as well. That has not been the focus, but that has been a side benefit of it. As an example, the year before last we were due to do a comprehensive revaluation on our transport asset class, which is our single biggest asset class, and we started from scratch. We developed our own condition assessment methodology with internal staff. It is not just the engineers that sit in one area: the engineers collaborated with the guys out on the field that are doing the maintenance as well. They developed a condition assessment methodology that was real in terms of when we are out on the ground replacing and maintaining these assets. The two correlated historically. There has been no link between the two. The asset revaluation process has been a tick-and-flick from a financial reporting perspective, and then the engineers have gone off and done their own thing in terms of their capex planning.

Condition assessment is done comprehensively and started from scratch. We also had a look at the valuation of those assets in terms of what it is costing us. We are fortunate that we have a lot of good data. With regard to our transport we do a lot of the construction ourselves, so we had a lot of good data in terms of what it is costing us to build those assets. I guess that served two purposes. It showed that historical means of asset valuation were a little bit flawed and we were able to reduce depreciation—I think it was about $4 million in that one year—through the transport valuation alone, and it gave our engineers and asset planners a really clear picture of where we are at and it informed where we needed to be in terms of our capex planning. It was quite complete and it has also been core to refining and giving us confidence in the long-term financial plan. They are the elements and inputs into it.

CHAIR: That is because of your good data collection.

Ms Whitton: Absolutely.

CHAIR: That leads to the next question. Why might some councils be struggling to develop quality asset management plans? From your experience, which sounds quite good, what do councils need to do to overcome this issue?

Ms Whitton: It is about investing in time and resources. It is fair to say that we are in quite a different position to our neighbouring councils in terms of the in-house staffing capability that we have, particularly in our engineering teams and in our finance teams. It is having everybody come together and have a look at it from a practical sense, not a compliance sense—which is typically what we have done—and having that focus, getting all the minds around the table looking at something that is practical and spending the time on it.

Going back to the transport valuation example, in previous years we had paid somebody to do that for us. We would get the data, feed it all through, and then we would tick the box in terms of preparing our financial statements. The asset guys did not even really use it. That may have been easier for all involved because we did not have to spend the time on it, but bringing it in-house was a considerable effort. It probably took about 10 months overall. That is not everybody working on it full-time, but there were a lot of players involved in that from all levels across the organisation. Throughout the process it may have been frustrating to some involved because of the time constraint, but the outcome was so beneficial to everybody and I think everybody saw the benefit at the other end.

Mr Andrejic: Chair, we are fortunate in being one of the larger councils, so by virtue of scale and sheer resource availability we do have the ability. A lot of councils just do not have that luxury.

CHAIR: That is one of the contributing factors to other councils not performing the same way.

Ms LEAHY: You mentioned that you had one per cent rate rises.

Mr Andrejic: It has been 1.5 per cent the last three years.

Ms LEAHY: What does that equal in dollar terms?

Mr Andrejic: One per cent for us is about $2.5 million.

Ms LEAHY: How long ago did you start doing the asset management planning you have done? I am looking for the time frame. Do you have any idea of what that cost you to do?

Ms Whitton: That is an interesting question. I have been with this organisation for just over 15 years, and asset management planning has been on the agenda for that entire time. There was a period of about three or four years where management at the time brought resources in, pulled a team together and had them looking solely at it. That would have been a reasonable cost to the organisation. I am not even going to estimate in terms of dollar value. In hindsight, in the last two years specifically what we have done is look and compare. In contrast to what they did before, it was very compliance, very theoretical when they centralised and spent a lot of time on it. What we have done, similar to the asset revaluation example, is make it more practical in terms of what it means for us on the ground in real terms. Our general manager of infrastructure services basically started again from scratch and rolled it all up to the highest level from the asset management strategy perspective. Similar to what the Tablelands Regional Council were talking about before—I think we have collaborated a little bit in that space—we have looked at their serviceability of assets, the service capacity of assets and applied that star rating. We looked at it from that perspective and really simplified it. It is a bit less time in dollar value in the last couple of years, but it is a much more practical way of looking at it.

Mrs LAUGA: One of the things the Auditor-General identified as a factor affecting the long-term sustainability of local governments, particularly for coastal councils, is high tourism. Essentially, high tourism can be a factor that impacts on financial sustainability. As a council in Queensland with significant tourism, can you outline how you think tourism impacts your financial sustainability as a council?

Mr Andrejic: Certainly positively. Tourism is the biggest industry in Cairns, accounting for circa 20 per cent of the Cairns economy. The Cairns regional council proudly contributes $3 million a year to Tourism Tropical North Queensland. That is about finding ways to bring more tourists to Cairns. It is about growing our tourism industry. We certainly embrace and fully support and do everything we can to grow that tourism industry. Conceding that we need to provide that infrastructure, it is what keeps Cairns ticking. It is of utmost importance to us.

Mrs LAUGA: On a cost-benefit level, tourism provides more benefit than cost to the Cairns Regional Council?

Mr Andrejic: To the Cairns economy as well, yes, most definitely. If it is 20 per cent of the economy, that is a significant proportion of the jobs. I come from an airport background. The value added to the regional economy by bringing a new service to Cairns is enormous. The number of jobs and the amount of spend in the city is enormous. We certainly buy into that at every opportunity.

Mrs LAUGA: That is really interesting, because the Auditor-General identified it as a factor impacting sustainability, not an opportunity for improved sustainability. Cairns is experiencing the opposite, as you are saying that it is a benefit to your budget and your finances.

Mr Andrejic: Absolutely.

Mrs LAUGA: That is very interesting.

Mr Andrejic: At 160,000 people, with 30,000 to 40,000 people visiting every day, it accounts for a significant component of our population. It employs a lot of people in this city and this region.

Mr PERRETT: I welcome the opportunity to ask some questions. My questions are along the same lines. John, I do not know how long you have been in this role, but Lisa mentioned 15 years as part of the finance team. I wind the clock back to when tourism numbers were not so good, although things are travelling along nicely at the moment. We heard from the Tablelands Regional Council that about 10 per cent of their ratepayers either cannot pay or are on some sort of payment plan. What is that figure here in Cairns? How many of your ratepayers are unable to pay on time or are on payment plans? Going back to when there were low numbers of tourists, how did that affect the economy and, in particular, council's operation in and around employment and the like?

Ms Whitton: I will start with our outstanding debt percentage, which is really quite low. The average is about three per cent. We do fare quite well in that space. Post GFC, this council experienced a bit of a downturn in terms of grant income. Because the economy was not going, the developer contribution income took a bit of a dive as well. That did impact on our capacity to pay, to a certain extent. This council did take the view that, with tourism fluctuating a little, we needed to continue to invest in the economy. We continued to spend strongly in our capex space. I guess it is part of the low rate rise methodology as well. In looking at the fact that the region was hurting post GFC, we did not want to put further impost on to the ratepayers as well. We were trying to absorb what we can and continue to spend from a capex perspective and pass on as low a rate rise as possible.

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Mr Andrejic: To answer your question, I have been at council for four years. Previously, I was CFO for three years and roughly a year in this job in one capacity or another, so much of that time was post GFC. What I have seen in this council is that, as Lisa said, it has got out there, spent as much as it could in the community when times were tough, as well as kept rate rises as low as we possibly could right through that time. How did we do it? By finding ways to do more with less.

Mr PERRETT: Moving to the operations of council, the Queensland Audit Office assessment showed overall a lower relative risk, which is obviously good. However, it also noted that it has a moderate operating surplus risk, which the Audit Office says is unsustainable into the future. What are your comments with respect to that?

Mr Andrejic: When the council of the day was elected five years ago, it came in and said, 'We are going to balance the budget.' It has effectively balanced the budget. In fact, it has delivered surpluses for each of the past four years whilst having very moderate rate rises, so 1.5 per cent for three years. In terms of whether you should be running a surplus or a deficit, I would point out—the same as with depreciation—what does the long-term financial model tell you? Have your asset management plans in place. Know your assets. Know you are replacing things. Know you have all the plans in place. Know you are on top of your business. Understand what the council as a group wants to spend in terms of capital expenditure over the next 10 years. Agree that with them and then look at what rate rise you need to fund that. The other piece of that is debt. Again, Cairns Regional Council has the second lowest debt per capita of any major council in the state. You pay for those things, so you pay for those ambitions of council through debt or through rate rise, and debt manifests itself in rate rise ultimately. It does not matter whether you are showing surplus, deficit or balance; it is whether you are happy with the capital program. Do you believe what underpins it and can you and the residents stomach the rate rise that you need to be passing on to achieve your aspirations?

I am pleased to say that we have put a lot of time and effort into the long-term financial forecasts as a management team in the past four years and the council is absolutely across that. They buy into it. Whenever they are thinking of something, they always ask, 'What's this going to do to our long-term rate rise profile?' They have bought into that and they lead from the front in that regard.

Mr PERRETT: That is good.

Mr CRAWFORD: Lisa, over the last couple of days we have spoken to a few councils. Cairns is obviously the biggest one that we have spoken to. You made some comments before about Cairns, being a larger council, having a large pool of staff, so a lot of knowledge and so on. Do some of the smaller councils around the Far North try to tap into ideas, training and that sort of thing through larger councils such as Cairns? For example, say mine is a small council up on the cape that wanted to implement an asset management plan but had absolutely no idea where to start. In the past, have such councils come to you guys looking for help? Does that gate exist?

Ms Whitton: Absolutely. It works both ways as well. We can learn from them as much as they can learn from us. In the asset management space, I mentioned before, similar to what the Tablelands were saying, we have been collaborating with them. They had somebody new looking at their asset management plans so they reached out to Bruce, our general manager of infrastructure services, and he shared our asset management strategies, our asset management plans and our methodology in that space. I believe that that is underpinned where they have moved forward to. Similarly with the Tablelands, they had a new finance manager about 18 months ago. She was new to local government, so we spent a couple of days with her in terms of onboarding and showing her what we do and how we do it. Across the organisation, there are those contacts. The department also assists with the local government finance officers' network. There is actually a session tomorrow. From a finance perspective, we have that network where we get together, share ideas and initiatives, and presentations are done. I believe, from an engineering sense and a couple of other functional areas across the organisation, they have similar forums.

Mr CRAWFORD: Is there anything we can do to make the state government grants process better? Obviously there are a number of grants available from a number of departments on a range of things. You briefly mentioned Works for Queensland. Is there anything that we can send back to our departments that can help councils in respect of how long it takes to get them, the work that you have to go through, building endless paper trails with submissions?

Mr Andrejic: Craig, I would answer that in two ways. Works for Queensland, where it was about jobs and infrastructure and getting it done, has been fantastic, so more of the same around that. When it comes to the more competitive grant arrangements, recent moves to come up with a short prequalification process whereby high-level expressions of interest are lodged and then certain projects are selected for detailed applications means that we are not preparing detailed applications for everything, sending it in and large chunks of it are unsuccessful. Now at least we are getting an idea of which projects are likely to be successful. That is reducing the amount of work on us. More of that, as well, would assist local government.

CHAIR: I have a couple of questions around the processes and systems for financial statement preparation. Do you face any specific resource or system challenges related to the annual financial statement preparation and are the expectations for financial reporting realistic or achievable?

Ms Whitton: Are they achievable? Yes. Do we face any issues in preparing or complying? No. Once again, we are fortunate to have quite a bit of stability in our finance team, and our systems and processes around the preparation are very robust and inherent. Everybody basically knows the drill these days. No, we do not really have any issues.

CHAIR: The main reason for that is the stability of the people you have in that particular area and the expertise?

Ms Whitton: Stability and capability, yes, absolutely. It is an expensive exercise and it does take the concentration of quite a few resources. I can appreciate that it is not a simple task, but we are fortunate enough to have had that consistency and that capability in that area and the resourcing.

CHAIR: Your turnover is very small?

Ms Whitton: Yes.

CHAIR: When you need training or education for new starters, do you deliver that yourself or do you go to the department of local government?

Ms Whitton: We do that ourselves. Because of the low turnover and we have consistency of quite a few staff, we have been able to do that development internally. The department helps specifically with the preparation of the financial statements, where they do their tropical workshops. The finance officers' network is a good information-sharing forum as well. They get different speakers to come along. The QAO will come and present in terms of changes or new requirements and expectations. I think that is always useful.

CHAIR: You are doing a pretty good job there, by the sounds of it. Have you noticed any areas where you think there could be better support from agencies? Does the selection process for your staff ensure you get the right person?

Ms Whitton: I think we do have quite robust recruitment processes. We have been lucky in that regard. In terms of what the department could be doing more of, I am trying to think of a recent example. A significant change that is impacting us this year is the new related party disclosure requirements. Something that we did find a little frustrating when it was released was getting clarity around the expectations on exactly what councils are required to do and report. I think we got there in the end. I guess the proof will be in the pudding, when we go through the audit process this year. I am not sure we are quite finished through that process. Clarity of direction in terms of exactly what is required would be useful, particularly for smaller local governments that do not have as much capable resources in that space or do not have that consistency.

CHAIR: How long have you been in your role?

Ms Whitton: The CFO role acting for six months last year, but formally appointed in January this year.

CHAIR: They must be pretty happy with you.

Mr PERRETT: I will be interested to hear your responses to the intergenerational funding, which I put to the Tablelands council as well. Obviously, the council has to have the capacity to service its commitments. I refer to council's view to providing certain infrastructure within the community and whether that should be shared over the life of the infrastructure by the people who are going to benefit from it, rather than trying to meet that through other measures. What is council's view on intergenerational funding and loans to meet future project needs across the Cairns region?

Mr Andrejic: By virtue of who we are and what we do, we will be around for a long time. For example, the new civic theatre will have a life. The last one was there for 40 years. There will be generations that pay for this. I do not think councils should be scared of debt. I think councils should decide what level of service they want to provide—just like we do—and what assets they aspire to have. They should have capital programs in their long-term model that they can live with, understand the mix of rates and debt, and understand the rate-rising impact on the ratepayer and whether they can live with that. If they can, there is no issue with long-term debt. Just as people borrow to build a house, I do not think it is a major issue for council to borrow for long-term assets and pay them off over time. It is all about the rate rise. It is all about the cash balance and the impact on the resident.

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Ms Whitton: I think there should be a commitment to the long-term view. That is something which we have put a lot of focus on in our long-term financial model. We have significant infrastructure investment to come in the latter years, and we have an example of that potentially with a new water treatment plant to the south. This council has to focus on making sure that it is equitable in the long term as well. As I said, we have significant infrastructure investment at the back end of the 10 years and we do not have silly things in there like ridiculous rate rise requirements at the back end. We have consciously balanced it out and that investment in time, in building the thoroughness and robustness of our asset management plans as well so we know there are no surprises coming, and we can plan for that consistency and that equity over the long term.

Mr PERRETT: To get a bit of history, after the 2008 amalgamations were there some tougher periods in respect of rate rises? While you have that levelled out now, were there periods where some tough decisions were made by council to meet some of the shortfalls?

Ms Whitton: I think it is much the same as what we are doing now. It is that continued focus on doing what we are doing but doing it better. In terms of infrastructure investment, I think we were pretty consistent pre amalgamation, during amalgamation and post amalgamation as well. There were a few little surprises along the way in terms of understanding the asset base. I think in the first year of amalgamation we were revaluing drainage and reviewing underground drainage. This was not just in one local government area as opposed to the other; it was consistently across. As those processes mature and you are learning more about the community, we discovered there was a large amount of infrastructure that we had never taken into account on the balance sheet and also from an asset management planning perspective. Luckily enough, it did not have too much of an impact and we have still been able to build those in and not have a large financial constraint associated with it.

Mr PERRETT: Thank you.

CHAIR: The time for this session has now expired. John and Lisa, thank you for your input. We will now break for 15 minutes.

Proceedings suspended from 10.48 am to 11.13 am

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CARDEW, Ms Linda, Chief Executive Officer, Douglas Shire Council

CREES, Mr Darryl, General Manager Corporate Services, Douglas Shire Council

GOTT, Mr James, Chief Executive Officer, Cassowary Coast Regional Council

KREMASTOS, Mr John, Mayor, Cassowary Coast Regional Council

LEU, Ms Julia, Mayor, Douglas Shire Council

NOLI, Ms Abigail, Councillor, Douglas Shire Council

REHN, Mr John, Manager Finance, Douglas Shire Council

SINGH, Mr Gurbindar, Manager Finance, Cassowary Coast Regional Council

CHAIR: Thank you to everybody for being here this morning. I now welcome the mayors, councillors and other representatives from the Cassowary Coast Regional Council and the Douglas Shire Council. Do you have an opening statement?

Mayor Kremastos: Thank you for giving us this opportunity to present today. I would like to make one point up-front. I am a newly elected mayor and councillor, so this is all new to me. I am looking forward to the experience.

On behalf of the Cassowary Coast Regional Council I am pleased to support Douglas's submission and the FNQROC submission together with those of its individual councils. The Cassowary Coast has a number of characteristics which are similar to Douglas insofar as its history included amalgamation, as it was created in 2008 pursuant to the amalgamation of the shires of Cardwell and Johnstone. It will be completely debt free at the end of the financial year. We took that option at the last general meeting. Our region covers 4,701 square kilometres and is home to approximately 30,000 people with a population density of about six people per square kilometre. Our service is similar to other councils, but we have fewer people to pay for them. Last financial year we generated a total revenue of $83 million and had an asset base of around $1.18 billion. Our formal submission contains itemised details of these assets.

Specific to the Cassowary Coast, however, I note the following data. Our population is skewed towards an ageing population and we have an unemployment rate of 7.6 per cent. This of course has clear implications as to wealth and capacity to pay. Notwithstanding this, Cassowary Coast Regional Council has achieved its targets in the last two financial years. Achieving the same outcome in the future financial years will be challenging with council taking on new assets to provide essential services. The most recent QTC report recommended council explore opportunities to promote economic growth. Indeed, in an area which is predominantly economically based on agriculture, increased diversity in industry would strengthen the region. However, as previously mentioned, we have limits in the council's ability to increase rates and charges whilst at the same time push up demand for additional services.

There is hard evidence that the council has maintained the impact of recovery from Cyclone Yasi in an effective manner, with little or no service diminution. However, the systems and processes put in place to manage the $110 million rebuild need to be maintained to ensure council's preparedness for the next significant event.

The recent changes to the NDRRA arrangements are beneficial. Council has achieved positive results by reference to the three mandatory sustainability ratios. However, we do have a concern with the assets sustainability ratio whereby council is required to achieve 90 per cent in terms of investment and renewal of assets as opposed to new assets.

Council has a substantial assets base and needs to invest in renewing assets that are being consumed as they provide services to the community. Managing operational expenditure is a challenge, particularly when a large percentage of the expenditure relates to labour costs and depreciation. Labour costs have been effectively managed over recent years. However, council needs to ensure it has sufficient resources to provide services whilst at the same time ensuring the operational budget remains balanced.

I commend for the committee's reference council's entire submission, which provides greater detail and substantiation of council's position. The Cassowary Coast supports the recommendations made by the Auditor-General. If implemented as proposed, there will be a significant improvement in

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the long-term financial sustainability of councils. Capacity, however, to advance goals varies from council to council with small, rural and remote councils being the least resourced to achieve all that is required across the state regardless of the jurisdiction.

Mayor Leu: Thank you very much for the opportunity to further present our submission, which we sent to you last Friday. In opening, I also want to say that we do fully support the submissions from Cassowary Coast Regional Council and also FNQROC. As you are probably aware, Douglas is one of four Queensland councils that deamalgamated in January 2014 and, as such, we have had to address a range of unique challenges in planning to achieve financial sustainability and also, at the same time, continue to meet state and community expectations in a manner that well-established and successful councils do. In saying that, I very much want to commend our CEO, Linda Cardew, Mr Crees, Mr Rehn and the whole of the finance team and the staff of Douglas Shire Council, who have worked tirelessly to successfully establish the new council, in particular in relation to financial sustainability.

Douglas generally supports the recommendations made by the Auditor-General. However, the capacity to achieve these goals does vary greatly from council to council with small, rural and remote councils being the least resourced to achieve all that is expected of the 77 councils across the state regardless of size. I will very quickly make a few comments around the actions for councils recommended by the Queensland Audit Office.

No. 1 is maintaining complete and accurate condition data and asset plans. It has only been in the last financial year that Douglas has been in the position to engage an asset management officer, an essential role to which some small councils do not have access. Asset values, useful lives and the absence of a North Queensland cost index all ultimately affect depreciation. Depreciation is a huge impost which many councils are struggling with. In Douglas in the financial year 2017-18 draft budget, the depreciation is approximately 28 per cent of council's operating expenditure. It is recommended that consideration be given to providing ongoing funding to the regional organisations of councils to establish and maintain regional local government cost indices.

No. 2 is implementing a scalable project decision-making framework for all infrastructure and asset investments. Douglas believes that a robust decision-making framework is essential and has implemented an assessment process that complements the state government's project decision framework. We note, however, that the state places great emphasis on the importance of local government renewing assets, yet many funding programs, with the exception of the 2017 Works for Queensland program, anticipate delivery of new infrastructure. The introduction of the Works for Queensland program with its streamlined application process, emphasis on renewals and avoidance of co-funding by the council has been extremely well received and is appreciated very much by our council. A greater level of funding or additional merit scoring on renewal projects for renewal and intervention strategies on assets rather than building new would be highly beneficial.

No. 3 is engaging directly with communities on future service levels. Douglas very much supports this recommendation and takes an active role in consulting with our community. The community does not, however, have a high level of understanding of the increasing financial cost of compliance reporting nor the impact of depreciation on council's operating budget. The community largely expects services to continue at the present level or to increase while costs outside council's control also rise. There is a general lack of community understanding of levels of service relating to safety and design serviceability compared to aesthetic levels, which do not improve asset life and cost council increased operational expense.

No. 4 is developing financial plans to explain their financial forecasts and how they intend to financially manage the council and its long-life assets. Douglas supports this recommendation but again notes the inability for small councils to adequately resource such work. Unless the state acknowledges and encourages the preparation of simplified but adequate plans, it is not workable to require both small and large councils to adopt a uniform approach with the same degree of analysis, nor is it constructive to require councils to adopt the QTTC 10-year model where alternative models may work more effectively for council and require fewer resources to prepare. The financial plans must be capable of being understood and must engender confidence in the elected representatives and that their collective direction is being implemented.

We know that there are actions for the Department of Infrastructure, Local Government and Planning that are recommended by the QAO. We support allowing councils to set up their own financial sustainability targets where they can justify that a different target is more appropriate for their long-term sustainability. The safe approach to financial sustainability is currently to require uniform compliance with current ratio targets regardless of the size of the council, yet through the

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Remuneration Tribunal, eight categories of councils are recognised. A financially sustainable metropolitan or large regional council will have completely different attributes to a small rural, remote or Aboriginal shire council.

A second action by QAO for the department is to strengthen the governance role including analysing long-term planning documents to allow the minister to identify councils in financial stress or becoming financially stressed. In relation to this recommendation Douglas Shire Council does not support that, as our view is that there are currently adequate controls and processes in place at the state level. Difficulty or failure to identify financial stress should be remedied through the current statutory audit process and the review of numerous other compliance reports mandated by the state. A greater level of intervention by the state will cause the imposition of further costs, whether the need to secure additional human resources to respond to the analysis or the diversion of officers from business as usual.

The action that is recommended by QAO is to support councils to strengthen their strategic planning by building their capacity to produce 10-year financial forecasts and asset management plans that can be relied on and are integrated with their annual budgetary processes. They should be renewed and updated at least every four years. This particular action we do not support. Whilst most councillors are well engaged with their communities, elected representatives do not necessarily have formal qualifications or training in financial management yet are charged with the responsibility of making very significant and far-reaching decisions that affect the long-term financial sustainability of their council. It is suggested in relation to this action that additional support and further access to ongoing professional training on an annual basis be considered.

I turn to the suggested recommendation to require councils to include in their annual budget or annual report statements the following: the long-term financial forecasts for at least three subsequent years after the budget year and reporting analysis of actual budget figures. Caution is recommended by Douglas Shire Council in recommending or considering this particular recommendation. We do express concern that the degree of budget analysis being processed is unclear and the amount of additional administrative workload may not add value to what is already being reported.

We do not support broadening the number of ratios required to be calculated over 10 years to include the asset renewal funding ratio once councils have improved their asset condition data. The reason for this is that the three current ratios are considered adequate as presently framed. It is recommended that a formal review of this ratio be conducted through a working group comprising, for example, the QAO, the department, LGAQ and the ROCs. I have given a short summary of our submission. I know that the CEO, Ms Cardew, is able to flesh out our submission. I am not sure what you want to do now. I will leave it up to you, Mr Chair; it is your committee.

CHAIR: Due to limited time, we will direct questions to both mayors and then if you want to allocate questions to staff, feel free to do so. I will start off with the financial challenges that are facing councils. In view of the population, economic and environmental trends, how do you anticipate your future revenue streams will be affected? How are you currently planning for these future challenges and opportunities?

Mr Gott: Thank you for the question. The Cassowary Coast is, I would suggest in the view of the council and the councillors, close to reaching its zenith in respect of its rating capacity to draw revenue. That is to say with the current population, with the current asset base, with the amortisation of those assets accounted for and funded, the council has little opportunity to draw further revenue from a static rating base. The council is planning and responding to this challenge by way of implementing plans that should go towards population growth—increased diversification and increased commercial activity within the area. The council is most certainly open to any number of initiatives—any number of ideas, if you will—that will lead to increases in own-source revenue.

Notwithstanding that, if you will permit me to take that a little bit further, I believe that it would not be difficult to roll out a litany of all of those things that have happened outside the parameter of this forum, I accept, that have had an impact upon local authorities in Queensland that have not truly been accounted for and that have not truly been recognised over the course of a very long time. To give you examples—and the member for Dalrymple, Mr Knuth, will remember this specifically—the changes to freight carrying strategies on the part of Queensland Rail led to quite a robust impact upon the road network. This affects state and local authorities. That impact has never been truly quantified. From an anecdotal point of view, it is easily appreciated the impact that we have seen in local government over some several years in respect of the implementation of ED42AAS27 and the resultant pressure upon councils to change the way that they do business without genuine reliance upon true amortisation, because we are immature within that cycle. These things only changed within comparatively short-term memory. The changes in legislation and so on that have created genuine additional costs to the council that are now applied to a rating base are not, I think, fully appreciated, nor is their impact fully understood with the effluxion of time. These things are changing before us. It is a moving feast.

If I were of a mind to bore you further, I could go through quite a schedule of significant changes over the past 30, 35 or 40 years that have impacted upon the council's capacity to respond, to earn and to stabilise. Specifically with regard to your question, Cassowary Coast Regional Council is embarking upon a period of robust change. The council has suggested that it has the capacity to be a circuit-breaker. Many of the council's decisions over the past 12 months since the last election have demonstrated that there is quite some reality behind that rather robust claim. The council has changed its purchasing policy. The council has changed its infrastructure recovery agreements. The council is changing the way that it applies its planning scheme. Its community plan will be reinvigorated, its operational plan and so on. There is great hope for a future whereby, particularly in the Cassowary Coast, we might see those increases in population and the diversification in commerce and industry that we so desperately need.

This is no short-term fix, though. The council is working on the bottom part of the iceberg. I think the realisation may well occur quite some years hence. During those years we are struggling, as are other councils, to keep up.

CHAIR: Thank you.

Ms Cardew: We would probably take a fairly plain-English approach to answering your question. I think there are a number of considerations for Douglas. One is that Douglas, as the mayor has said, is operating in an environment of post deamalgamation and for us in the short term that has set some very real parameters around what we need to achieve. The council has been very clear in setting its financial goals going forward. Again, in the short term we are aiming for financial sustainability by the 2019-20 year. That will incorporate the absorption of the deamalgamated costs.

The thing that is of most high-level concern to us is the cost of compliance. There is a very significant degree of compliance with state government requirements. We have done an extensive analysis of that internally in looking at what our resources are capable of delivering. We have a very extensive reporting obligation back to the state as a result of our compliance obligations.

We have to meet the costs of the devolution of responsibilities from the state. Like the other councils have mentioned this morning, that is a very significant cost to us because, at the end of the day, the community looks to local government to still keep its country safe, to keep its place safe. It does not matter whether it is the removal of feral pig control costs or vegetation management, the community still expects the services to be delivered. Whether explicitly or subliminally, there is an expectation on the council that we will meet those costs. We have increasing expectations from the community. In the case of Douglas, the demographic is a particular one that demands increased services continually. In some ways we are a victim of our own success. The more we deliver in Douglas, the more the Douglas demographic wants us to deliver. That, of course, is fired up by the challenge that local, state and federal governments are experiencing and that is the impact of social media.

We have a loss of contribution of state government funding in particular areas. In the case of Douglas, we have ageing infrastructure in terms of our water and sewerage assets. We have no real way of making that up, yet we have a very significant compliance burden that we need to meet in terms of our obligations to EHP. We have the deterioration of our assets, which is a situation that is experienced by all councils. We have fairly low development numbers in Douglas. Unlike Cairns, for example, and unlike the South-East Queensland areas, we do not have a booming population, we do not have rapid expansion and we do not have the challenges and opportunities that are brought by that.

Very clearly, within the council one of the things that concerns me is—and this was part of your question—how do we plan to meet these challenges? We need to be nimble. We need to be flexible. We need to be adaptable. This is a message that the state government is very clearly giving out through its direction to be an innovative and capable local government, yet one of our concerns is the constraints the new Industrial Relations Act places upon local government's ability to be nimble. We are trying to be a flexible, adaptable, contemporary business that adapts to the demands of the changing environment, whether it is a financial environment, a compliance environment or a community-led environment. We would look to the state government to please consider how we can remove those shackles that, in turn, prohibit us from creatively and flexibly aiming to achieve a position of financial sustainability. We must have a flexible workforce. We must have a flexible response to our compliance obligations. Thank you.

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CHAIR: Do councils have a good understanding of what their assets are? I am not saying that you know what 30 per cent of it is, but a close indication of your assets. How does that look for the future replacement of those assets?

Mr Gott: I believe that our asset identification is quite reasonable by comparison with most. We have some difficulties in respect of the underground network, but we are moving towards the identification of what the condition might be and what reliabilities associated with that condition might be in respect of those subterranean assets. In terms of our condition reporting—and I may refer to Mr Singh in this regard—I believe that our condition reporting is complete. In respect of the other range of assets that are listed in gross terms in our submission, I believe that our condition reporting is mostly complete, with the notable exception of those underground assets.

Probably another one of our weaknesses would be in respect of full condition reporting on our road network. Having said that, in comparison with other local authorities of which I am aware, we are progressing reasonably well. To follow on from and to support what was said a moment ago, the cost of that asset identification becomes quite substantial as well. As important as the task is, there is quite a burden in reaching a point where condition reporting can be stringent and reliable. Mr Singh, would you like to add to that?

Mr Singh: For the Cassowary Coast, our biggest asset base is the transport network. In terms of the other key challenges that we face, water, sewerage and waste are some of the other key areas where we are struggling in terms of getting a clear grip, particularly the underground asset, as James has mentioned before.

In terms of the assessment of the condition of these assets, the council has embarked on a path of a five-year rolling cycle whereby we identify the different asset classes and we get asset conditions reviewed yearly. We are embarking towards resourcing it in-house. Going forward we hope to have resources on board whereby all asset condition assessments are done in-house. One of the biggest challenges that we face is getting resources on the ground—that is, getting good staff who are able to understand, who are able to deliver the asset conditions.

The other key challenge is in terms of technology. We are trying to move towards technological advancement where we are able to use mobility to ensure that staff on the ground have those technologies available to them so that, if they are going out into the field to assess some of the assets themselves, they are able to do it right then and there and the data gets transferred across to the council. As part of that, we need the infrastructure in place. We are not there yet, but we are working towards it. It is an investment that the council has to make. It is a substantial amount of investment in terms of resourcing and IT.

Hopefully going forward it is one of the key challenges. We are not financially equipped at the moment in terms of resourcing some of those. The more we spend in trying to get our asset condition data up to speed, the more costly it gets. It is only supported by a limited number of ratepayers that council has in the region. Again, it puts pressure on the same ratepayers. It is a vicious cycle where we try to improve the asset condition, the data associated with the asset itself, but then indirectly put the pressure back on to the ratepayers. If we were to move quicker in that area, funding through the state or federal government would be quite handy in terms of helping us improve our asset conditions.

Overall, though, if we were to look at the portfolio for the council, the council has done a lot of work in the last couple of years, especially after going through a number of cyclones. Again, the biggest challenge is that, through the funding that the council still has received to do with cyclones, we have not been able to look at our underground assets. That is where we are at the moment.

Ms Cardew: Mr Chairman, I will just answer briefly but then I may hand over to Mr Crees and Mr Rehn. I do believe we now know our assets. We understand what they are. We have again embarked on a fairly rigorous process post deamalgamation. It has taken some time in terms of the separation from Cairns Regional Council and the reviewing and revaluing of all our assets, the completion of condition reports and so forth. We have implemented a strong asset management steering committee within council and there has been a real emphasis on the integration of, I suppose, thinking between our engineers and our accounting or our finance team. We have one accountant in our finance team. Mr Rehn or Mr Crees, would you like to add something?

Mr Rehn: As Linda said, I think we have a very good understanding of our assets. Because we went through deamalgamation, we had to review everything in our asset registers—all of the classes. We are on a four-year cycle for revaluation of our assets and this year was our last year of that cycle. Because we are prone to weather events—the same as Cassowary—every year we produce what we call a DVR where they drive down all of our roads and film all of our roads and the condition of the roads and the side of the roads so we have a before and after. If we have a cyclone

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event, we can go back and see what the roads were like before the event versus post the event. We do that every year and we use that same DVR, as we call it, for our condition assessment on our roads. We do condition assessments in conjunction with every revaluation we do, so every four years we do a full condition assessment of particular asset classes.

We have the Queensland Audit Office as our auditors and each year they take our asset register, load it into a piece of software that they have and produce a graph that shows the remaining useful life of all our asset classes so that they can determine when each group of assets will reach the end of their useful life and they compare that with our forward capital expenditure projections out over 10 or 15 years. In our 10-year model our expenditure on renewals projected over those 10 years exceeds the requirements to replace our existing assets. We feel that, from a financial point of view as well as the asset point of view, we are managing the assets correctly.

The other thing I would just mention quickly—and Cassowary touched on it—is that we use a product called Reflect Recover which our field staff use on their iPads. When they are out in the field, they record any damage or any trip hazards on footpaths or any of our other assets through that system and that is loaded back into a database. It is a daily process whenever they are out in the field. We have an ongoing record of any issues with our assets.

CHAIR: Technology is certainly changing the way you do business.

Ms LEAHY: My question is to Mayor Julia Leu from the Douglas Shire Council. In your submission and also in your opening statement in relation to the dot point about maintaining complete and accurate condition of data and asset management plans, you mentioned that there was no North Queensland cost index. What cost indexes are currently used? If there was to be a North Queensland cost index, who would be responsible for establishing that and what input would councils have in that process? To the best of your knowledge, are there other cost indexes which do not exist across the state?

Mayor Leu: Thanks a lot for the question because it is something that came up when we were discussing our budget last year. We are aware that LGAQ puts out a local government cost index, but we really felt that the conditions and differences that are unique to our particular area—Far North Queensland—are very different and there are different costs. At that time I contacted Darlene Irvine from FNQROC to see whether there was one that we were not aware of and there was not. We think that would be very advantageous because when we, for example, strike our rates and put out our budget, certainly in terms of what we feel is being responsible in terms of collection of rates versus what we have to do, we have been above what would generally be the CPI cost index. That is why we thought it would be good to develop one uniquely for Far North Queensland. I am not sure I can really answer your question in that I am not really aware if there are any other ones that do not. I am only aware of what does exist; that is all. In terms of who would be responsible for developing it, certainly I would say that it would be something that councils would want to have input into because we would be able to advise in terms of our particular costs, separate to maybe other industry sectors.

Ms LEAHY: I would look, for instance, at Cassowary Coast. We have had two cyclones in a fairly close period of time. Not everywhere else in the state has that situation.

Mayor Kremastos: No. It would be very rare that it would be two significant cyclones like Larry and Yasi so close that created a lot of havoc amongst our assets; yes, for sure.

Mayor Leu: Essentially, we just felt that we should have a different cost index than Brisbane or the south-east corner of Queensland.

Ms LEAHY: Thank you.

Mrs LAUGA: Thank you all for being here. It is wonderful to have you all here. I have two questions, and I asked this first question of Cairns Regional Council as well. The Auditor-General identified key factors impacting on the financial sustainability of councils, one being high levels of tourism. I assume that both councils experience high levels of tourism in your regions. In your experience, do high levels of tourism impact negatively on your ability to financially sustain your council?

Mayor Kremastos: The Cassowary Coast is quite diverse in its tourism ventures. Starting from the southern end at Cardwell we have Hinchinbrook Island and coming up to Dunk Island we have Mission Beach and then Innisfail, which is not quite as much. It is a tack that we are taking in that we believe tourism is going to play a major part in our economy and we as a council are at this stage driving that and encouraging tourist operators to our region. Although we have not reached our full capacity, certainly as a council we are driving tourism to our region and we see that not as a burden but as a benefit.

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Mayor Leu: I absolutely concur with Mayor Kremastos. In particular for Douglas, tourism is 80 per cent of our local economy. We work very hard at council in supporting our tourism operators and our tourism board, which is Tourism Port Douglas & Daintree, which I know is highly regarded throughout the region and throughout Queensland. Council itself provides around about $450,000 annually which, I think per capita, is one of the highest contributions from local government in Australia. We very much work in sync with our tourism board and we do everything we can to encourage tourism. We have worked on a very extensive events calendar since the beginning of the new Douglas. We have just had our annual Port Douglas Carnivale festival, which was a raging success, bringing in people from all over Queensland and even Australia. Locals enjoy it. One of the key aims is to provide visitation to the area and promote our area.

Mayor Kremastos: If I could add something, just to give credence to what we are about, we have just been successful in winning the International Rafting Federation's whitewater rafting championships to Tully in our region, and that equates to something like 9,000 bed nights. That tourism is certainly going to be a huge benefit to our region.

Mrs LAUGA: Congratulations!

Mayor Kremastos: Thank you.

Mrs LAUGA: My second question is specifically to Cassowary Coast. In the Auditor-General's report with respect to the results of financial audits Cassowary Coast did really well in the internal controls. You got a lot of green lights and one amber light, but there is one red light with respect to the financial statement preparation, It relates to the quality of your financial statements that have been prepared. Could you talk me through why you think the council did so poorly in the 2015-16 results for financial audits and was identified by the Auditor-General as having a red light against the quality of your financial statements?

Mr Singh: I think what happened was in relation to the revaluation exercise at council, but there was a delay in getting the report to finance. When we provided QAO with the first draft of the financial statement, on the financial statement I think there was a figure for accommodated depreciation which was not picked up as part of the engineers' submission to finance to upload the data. What happened was the cost of the assets was increased but the accommodated depreciation figure was not increased by the report and there was a mix-up between the first draft and second. It was not a major issue in terms of the book itself, but QAO looks at the first draft and then compares it to the second draft and in-between council had made the adjustment. That was the reason it got picked up.

In terms of the value, I think it was around $80 million associated with accommodated depreciation which was not picked up. I think the core reason was that, because the engineers had revalued our marine assets and a couple of other assets, they had the understanding that they could go in with a net book value, not realising that they had to adjust the accommodated value in their submission to finance. There was an oversight from one of the staff in finance, so that is why it got rectified. Again, it goes back to just the value of the figure and it triggered that red flag.

Mrs LAUGA: Do you feel like you get sufficient feedback from the Audit Office with respect to your financial statements as to why you got the red light? Are you taking measures internally to resolve that? Do you expect that you will have a green light next time?

Mr Singh: We are hoping to. As part of the process this year we had initiated our revaluation process earlier. We were targeting for everything to be back to finance by May, so that should give us at least a couple of months to review the data and analyse the data. At the same time I think we did raise the issue with QAO last year as well, saying 'Yes, we have a percentage figure that we normally look at. Maybe as part of the percentage figure there should be other criteria associated with it,' especially if it is not a major issue. Then again, they only go by the fixed figure or it is a percentage figure that they look at, so it was a bit unfortunate.

Mr PERRETT: I have one question to each council, firstly Cassowary. The mayor made a comment earlier—and I assume this is a conscious decision of council—to be debt free. Just linking that back to the early stages of the asset management structure that you are putting in place and then an assessment that, particularly with your buried infrastructure—stormwater, water and sewerage—as has been indicated, some of that is approaching end of life, firstly, why the conscious decision to be debt free when there is the potential for some significant costs in some of your key infrastructure that you supply to your community?

Mayor Kremastos: I will open up and then pass on. We have taken a business approach to council—the majority of our councillors are businesspeople—and we looked at the fixed rate loans that we are paying and the impost on our bottom line. Some of our loans were in excess of seven per cent and six per cent, and we saw that as a burden back on to our ratepayers. In simple terms, if we were to reborrow tomorrow, we could pick up those loans at three per cent or 3½ per cent. It was purely a financial decision to try and ease the burden on our ratepayers and not impact on future capital expenditure. James, is there anything you would like to add?

Mr Gott: Thank you for the question. I understand exactly what you are asking. The decision was made precisely, as the mayor suggested, taking into account the differential between our borrowing rate and our earning rate. We consider that we are in a position where we will be sufficiently nimble to finance any unfortunate financial requirements which might arise after our identification of the condition of those underground assets. The service levels that we are providing—data in respect of failures, leaks, those sorts of things—would not suggest that we have any real expectation of a catastrophic situation, and we would imagine therefore that we would have well and truly sufficient time to replace our financial position to the extent that we could fund any emergent capital requirements that might come from that situation. We have absolutely no reason to anticipate that anything might happen as, for example, happened with Hobart. I think that would be a good comparison and it may even be the basis for your question. Hobart established itself into a debt-free position and then had a catastrophe with its water supply and was not able to finance it. We would not anticipate we would be anything like that insofar as our service levels would indicate that there is still a reasonable asset life in our infrastructure.

Mr PERRETT: Did you pay down that debt out of operating revenue or out of reserves?

Mr Gott: Reserves.

Mr PERRETT: The other question is to Douglas—and I think the CEO raised it before—with regard to the cost of doing business as a council and some of the compliance obligations. I think you mentioned Environment and Heritage Protection, and you also mentioned industrial relations and devolution of cost back from state government onto local government. Can you expand on the cost of doing business as a local authority with regard to impositions that are placed on you by other levels of government?

Ms Cardew: I am sorry that I did not bring our compliance analysis with us. I would only like to speak in very general terms, but we have a significant percentage of our committed workforce responding to what I would call not business-as-usual compliance from the state government but dealing with particular projects and reporting on an annual basis, a monthly basis, a quarterly basis or whatever it is. Those same staff at Douglas are also responsible largely for the delivery of not only business as usual but also council's operating plan. Furthermore, we have again those same staff in some instances having to deal with the delivery of our capital works program. We do not have the luxury of a large council such as Cairns, where there are teams of people who are dedicated to delivering certain products. Our teams have to be multiskilled, and that means that they have to be project managers, financial managers and compliance officers. The cost of doing business is continually increasing as a general rule. The only way we can really adapt is to look at where we have some flexibility.

Whilst our depreciation costs are continuing to rise and our compliance obligations are continuing to rise, we are getting squeezed in the middle in a very real way. We are not struggling, but we are continually striving to find ways to meet those obligations within the parameters of our available revenue. Our council is very concerned about the community's capacity to pay. We derive about 79 per cent of our revenue from rates and charges. We are looking towards the ability to recover costs on a user-pays basis, and I believe this year the council's direction will be to try and achieve more of a user-pays approach. I do not know whether Mr Crees would like to add to that.

Mr Crees: Getting back to the compliance aspect, the main thing is that so much of our work relates to compliance, but then recently we had a survey from the CCC to which we had to respond. These are one-off things coming from different areas, but it takes up the staff's time. Whilst we are ready to do that work, it is diverting our resources away from what we consider to be our core business. It is a combination of all those things that does hinder us with the compliance side of it. I think that is about all I can add.

Mr PERRETT: Do you quantify that? If you are able to quantify the cost of compliance to the committee, I think that would be helpful.

Ms Cardew: Mr Chair, we would be very, very happy to supply that. Over the last couple of months as part of the budget preparations we did extensive work with our staff probably for the first time. I am not sure how many councils would do it to the degree we have. We considered it to be essential that we undertake a diagnostic review of where our resources were really allocated. We would be very happy to do that. We have not attributed a dollar cost to every compliance obligation that we have, but we have most certainly allocated a resource cost, and I think it is very telling looking at the EFT required to address each of those issues. As I mentioned previously, we did not examine business as usual because business as usual continues, and that really is whatever falls out at the end. The EFT required to be allocated to the myriad project costs of compliance I would be very, very happy to share with you. It would be work that I would feel very good to pass on to the state government.

Mr PERRETT: I would very much appreciate it if you could do that.

Mr CRAWFORD: We touched on the revenue thing a little bit, but my question is particularly with regard to the government grants process. We have spoken to some councils who rely very, very heavily on state government grants and other councils that do not as they get most of their revenue from their rate base. I am interested in the amount of time and effort that has to go into chasing grants by your respective councils. Do you see ways that we can amend that to make it better? There was a recommendation from Cairns before about a process of short-listing or preapproval before you had to send in the big dossier of paperwork and before you spent hours and days and weeks working on things. I am interested to hear what recommendations we can make back to our departments about what kind of grant processes work and which ones are just tying up your time. Do you have staff that are allocated to grants writing and that sort of thing on an ongoing basis, or is it just hit and miss?

Mr Gott: In councils of our size it would be atypical to have officers or numbers of officers who were specifically dedicated to chasing grants. In larger councils that is very often the case. I think something that has been promulgated comparatively recently through the department of local government has been support of what you were talking about a moment ago in respect of having projects costed at least to a reasonable degree of acuity so that we could be somewhat pre-emptive of grant programs and initiatives being rolled out. I think further collaboration between the state government and local government will be able to produce efficiencies there for both. That is to say, sometimes it is time constraints which impact on us to a greater extent than requirements for data. I understand what you are saying about needing huge reams of material, but it is the brevity of the material between release of grant information or grant calling and the deadline for our submission which gives us our biggest problems. We therefore think that, with some general guidance from the state government as to initiatives for which we can prepare, we will be able to do better and the system will be improved greatly. I note that a lot of the reporting mechanisms have been subject to considerable improvement over the last couple of years and it is a lot easier to comply. In brief, there is already a movement towards improved efficiency in that area and we are enjoying it.

Ms Cardew: I would first make the point that grant writing is not a skill set which is typical across council. An engineer is an engineer; a finance person is a finance person. That then begs the question: who is best placed to write grant proposals? In Douglas we recognised that there was a need, and about 18 months ago council resolved that we would employ a grants officer for a trial period of 12 months. We had a part-time grants officer who was incredibly successful. We received about $750,000 within that 12-month period. Her contract ended and we recognised that we had to move to a full-time grants officer position for one person. We have not yet been successful in recruiting somebody to come to Douglas at a low- to middle-level position. Council is very supportive in their annual budgeting to look at the need for getting projects into the pipeline. The typical process for grant applications as it currently stands is that there must be concept planning, master planning, economic appraisals, a business case or similar to support the application. That requires a degree of foresight, which requires in turn an allocation of budgets and resources to undertake that work.

We have welcomed the Works for Queensland program for two reasons. One is that councils were not required to put in complementary funding. It was not that we should not put in complementary funding, although that was appreciated; it was that the grants became available at very short notice and there literally was not the time to go to council to require budget reviews and amendments to provide that complementary funding. It was an easy program to apply for, but within the delivery period we have to respond on a monthly basis. There are approximately—I am told, but I have not counted them myself—50 columns of reporting information that needs to go back on a monthly basis. That is in itself a significant burden in terms of reporting. Larger projects for which we have been successful have obviously required reporting, and we agree and understand that there should be an appropriate acquittal process. Typically, councils—I say typically, but of course I cannot speak for any or all or even the majority—are responsible with money. If we have the opportunity to place grant funding, particularly for asset renewal, where we believe it should be best placed I believe council's position would be, 'Please allocate that money, require appropriate acquittal at the end and trust that the council will do its best.'

I suggest there are some impediments to that which I think need to be noted. One is that councils do not ideally operate within a 12-month cycle. An asset replacement project quite often needs to have a concept plan in one year and the development or the implementation in the subsequent or following years. We need to be allowed to do that. The Works for Queensland program can say—out of the blue and very much appreciated—'acquittal by 30 November' or 'completion of both projects by 30 November'. We are also challenged within that time frame by things like weather, and we would like South-East Queensland in their generosity to understand that the Far North has no construction period for possibly up to four to six months of the year, so we are challenged by other factors again. I would say finally that the cost-benefit of some grants makes us question whether we should go through with it. This is where there is a community/political imperative to accept, but there is a state government obligation to provide a very extensive acquittal process.

An example I would give is that the Great Australian Bites funding of approximately $20,000, which Douglas received to give an Australia Day experience for the local community, was very well regarded but our cost of implementing and acquitting that $20,000, while I cannot be precise, was nudging up there in terms of resource costs to a point where we would say that it did not deliver the cost-benefit that we would hope. In summary, we would say: for smaller grants, please make it very easy, a one-page acquittal, and councillors accountable for that money. For the very significant projects, could we have a more accommodating time frame for the implementation and allow us to do it properly? That is a very, very important point that I would like to make.

Mr CRAWFORD: You mentioned Works for Queensland. As you know, with Works for Queensland every council started with $1 million and then there was a formula based on population and unemployment which naturally favoured larger councils like Cairns, Townsville and the like. Do you think that is a successful way of measuring how the money gets distributed amongst regional communities or do you have a better formula?

Ms Cardew: I cannot say it was an unfair process but I think it was a constructed process. My interpretation was that it was defensible and applicable at the time. I do think it could be reviewed. I note the comment, for example, made by Cairns Regional Council this morning that a one per cent rise in rates delivers approximately $2.5 million. A one per cent rise in rates for Douglas Shire Council, with general rates and utilities charges, delivers one-tenth of that, at around $250,000. We have a very significant need for the renewal of our assets. I believe it could be done on the basis of possibly population; it could be done on the basis of a submitted need. Quite clearly, small western councils have a particular different need to the coastal councils, and smaller councils and remote councils versus the south.

I would like to see that reviewed, if I could suggest that, but with the input of perhaps a working group comprising a range of councils of different sizes, perhaps under the eight separate council identities that are currently identified under the Remuneration Tribunal's categories of councils to have input into that process. I think Works for Queensland is a wonderful process that is well regarded across the state and very much appreciated. If we could now take part in an evaluation of that process, I believe that would be a very constructive approach.

Mr KNUTH: James, this question is to you because you were the CEO of the Dalrymple Shire Council back in the nineties when I lived there. We saw a number of asset investments take off, such as the World Theatre, the undercover sports arena, the Dalrymple Villa and the Dalrymple saleyards. Then all of a sudden we saw council amalgamation and all of these other processes came in. Was it more workable to get funding back then compared to now, being a CEO?

Mr Gott: Thank you for the question. I believe that there was the opportunity several decades ago to engage better with the state government to produce, I suppose, criteria that could be recognised in application of funding and so on. That would be true at the federal level as well. I hope I am going in the direction you want me to.

Mr KNUTH: Yes.

Mr Gott: It goes to what Douglas was just saying as well. Cassowary Coast very much enjoyed the opportunity to submit for Works for Queensland. We think it is a wonderful initiative. The use of the proportional population parameter is something that could be expanded upon so that there could be other fiscal equalisation need principles brought into the criteria to perhaps tailor them better for individual councils. If that opportunity were given to councils, I think we would be able to do better within that space. That would in fact come closer to some of the programs that were in place in the eighties and nineties. It is one of the distinct differences, I think, between making applications for grants in this day and age and back then. That is not in any way to suggest that they were the good old days, because quite simply they were not.

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Having said that, I think the committee may be interested in having regard to a lot of work that was done in the late nineties which culminated in 2003 with the House of Representatives standing committee roundtable inquiry into cost shifting. There was significant data taken at that time which is not dated; it has been updated through the years. There is some data there which, respectfully, may be of some interest to the committee in respect of mounting pressures upon local government. That cost shifting is not restricted to the usual model but goes towards the things that this committee has addressed in terms of increased compliance costs and increased legislative costs—they are all compliance costs, really. I would certainly commend the committee to look at that. I would think it would be available reasonably freely.

Mr KNUTH: In regard to those asset investments, with the undercover arena we get 3,000 to the rodeos and the campdrafts so there is a return to the community—likewise, renting out the World Theatre and the movie theatres. Is there red tape regarding the state and federal governments in trying to get processes in place and funding to build assets for that investment on return?

Mayor Leu: I may not have fully understood your question but I will just reflect on some of the commentary from the last few minutes. One of the distinct advantages of Douglas being able to be its own council again is that opportunity to apply for grants in our own right that absolutely meet our community expectations. When I was a councillor with the Cairns Regional Council I tried to get many of our significant projects up, but many of the grants will only allow one application from one local government area. We have been very, very successful in getting a number of grants for some fabulous community projects which do give that return in terms of community benefit. Sometimes you cannot quantify the benefit but it is improving people's lives, it is making it a far more livable area and people are able to enjoy their weekends. We have had some great opportunities in the last four years because of different grants and also particular infrastructure. We have had walking tracks. We have recently turned the first sod on our new Port Douglas water reservoir, and we thank the state for the contribution for that. We have money into our Daintree Gateway, which is near the Daintree ferry. We are into about our third stage of that, and that has all had some state government contributions.

I know this is probably not strictly financial sustainability, but councils are far more than roads, rates and rubbish these days. We all absolutely know that. Local government is the closest to the community and the people. We need to have functioning, caring, competent local governments that really listen to what the community needs and work towards planning for that. It is about planning what you need in the future and then being ready to apply for grants when they are available. As everyone here has said, it is just making sure you can trust local government. We have to meet many, many hurdles in financial management, and we can do that and we have proved that. That is what we like about the Works for Queensland program, because it means we can just get on with doing it and it is far more cost effective for everyone.

Mayor Kremastos: I concur with what Julie has said.

CHAIR: Unfortunately, we have run out of time. It is very difficult to give everybody a fair go sometimes. Linda, will you be able to provide that information to us by Thursday of next week?

Ms Cardew: Most certainly.

CHAIR: Thank you. Thank you for your attendance and input.

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BARMETTLER, Ms Melissa, Executive Manager, Financial Services, Torres Strait Island Regional Council

McCARTHY, Mr Bernie, Chief Executive Officer, Aurukun Shire Council

McLAUGHLIN, Mr Chris, Acting Chief Executive Officer, Torres Strait Island Regional Council

SCHAEFER, Ms Marina, Finance Manager, Aurukun Shire Council

WALPO, Mr Derek, Mayor, Aurukun Shire Council

CHAIR: I welcome Mayor Derek Walpo from Aurukun Shire Council and other officers. Would you like to make an opening statement?

Mayor Walpo: We thank the Infrastructure, Planning and Natural Resources Committee for the opportunity to address you today. The Aurukun shire is a very remote area of Queensland. It is starkly different from most other Queensland shires. We are in the bush. I believe our community is one of the most disadvantaged in Australia but we have an outstanding potential for growth and prosperity. I would like to do the highlights, if that is okay by the team, instead of reading the full submission.

CHAIR: Yes, we have your submission.

Mayor Walpo: In terms of background, the community of Aurukun is located on the north-west coast of Cape York Peninsula, 200 kilometres, or two hours and 30 minutes, by road south of the mining town of Weipa and about 831 kilometres, or 11½ hours, from Cairns. Nearly the entire population—about 99.6 per cent—lives within the township. From its origins as a Presbyterian mission in 1904, the Aurukun Shire Council was constituted on 22 May 1978 when the Local Government (Aboriginal Lands) Act came into force. In September 2013 the land became freehold with the Aurukun Shire Council as trustee of the town area and reserve land together with the Ngan Aak-Kunch Aboriginal Corporation—the prescribed body corporate—as trustee of the balance of the shire lease.

The Accessibility Remoteness Index of Australia produced by the department of health and ageing rates Aurukun in the highest category of remoteness. Despite this remoteness, Aurukun Shire Council prides itself on the comprehensive services provided. We run the airport and Skytrans agency which provide eight flights per week to and from Cairns. I think we are the only council in Cape York that runs the airport. We run the childcare centre and provide family support. Community police comes under our payroll as well.

We run the Bendigo Bank, the post office and the Indigenous Knowledge Centre, which is the library. Other services we provide include freight services; Wik and Kugu Arts Centre; Kooth Pach Guest House, which means ‘water lily’ in the Wik language; Wuungkam Lodge, which means ‘barramundi’; and Wo’uw Ko’alam Community Centre, which means ‘three rivers’. Other services we provide include the boat ramp for recreational fishing and freight, the training centre and funerals. Provision of these services in a remote and socially disadvantaged area comes at a price. Most are run at a loss or on a cost-neutral basis. I will get my CEO to elaborate on the last part.

Mr McCarthy: To highlight some of the challenges we face, size is a factor for us. The shire comprises some 7,500 square kilometres. Isolation has already been mentioned. The wet season is a factor for us. I think we mentioned that when we met with you two days ago. We have a very good road network going out to Peninsula Development Road, which is about 108 kays, but unfortunately the last 26 kays is within the Cook shire and we are seeking that that be upgraded. We have just sent a joint letter from both shires to seek funding to achieve the construction and sealing of that road. That road is now being affected by heavy mining traffic. A lot of movements will occur as the Amrun mining project is developed. It is a bit of a catch 22 situation. We have this excellent road, but then you get to the end of it and to go that little bit further to the closest township we have this road that is not up to standard, and that is what we are really trying to achieve because in a wet season we will still be isolated away from the rest of the world. We would like to see that occur.

Aurukun is rated in the poorest five per cent of communities Australia-wide. Aurukun is the fourth most disadvantaged local government area in Australia and the second most disadvantaged level 2 statistical area. As you are aware and you would have seen the other day, Aurukun is a welfare reform community, one of only four such communities in Queensland.

Amongst our issues has been the school. I think it is almost a year to the day that we had some unfortunate events occur when the school closed down and the teachers left because of car-jacking incidents, but now we see that it is back on a very positive level. Low school attendance is an ongoing challenge but will continue to improve under the new Education Queensland model. We are seeing really positive signs this year. For financial planning, I will hand over to our finance manager, Marina, to paint a picture about grants and percentages of how much we operate on.

Ms Schaefer: Thank you for giving us the opportunity to speak with you today. Aurukun Shire Council relies on the Queensland Treasury financial forecasting model. We use that extensively in terms of forecasting our assets expenditure and assets revenue and also expenses. It is an ongoing process for us. We have difficulty forecasting because our revenue base is mostly reliant on grants. The operating grant alone is already 52 per cent of our recurrent revenue and the capital grant is 13 per cent of our total revenue.

In terms of council revenue, we rely so much on leasing—and leasing is over $2 million—fees and charges, and that includes utilities, water and sewerage. We do not have general rates so the fees and charges are only $700,000. Another $2 million of that comes from private works, mainly from Building and Asset Services.

As you can see, council has great difficulty in forecasting three years let alone 10 years for the simple reason that the majority of our revenue is reliant on grants. Over the years that I have looked at Aurukun Shire Council's financial sustainability it has declined, but to council's credit they have retained some cash investments. We have over $4 million in cash investments for contingency and for our operating expenditure. At the moment our operating ratio is running at minus eight per cent when we are supposed to be between zero and 10 per cent. Every year for the last five years we have been running an operating deficit mainly because we cannot really recoup the majority of our expenditure. Community policing and security is over $1 million.

Mr McLaughlin: Before I begin, I would like to acknowledge the traditional owners on whose land we meet and pay my respects to elders past and present. I would like to acknowledge the great work that the panel is doing and that of my colleagues here today from Aurukun Shire Council. I would like to make an apology for Mayor Fred Gela. Unfortunately we had our council meeting yesterday and he has other business he has to attend to for the region, so he sends his apologies. Hopefully I can enlighten you all today. We will be relying upon the submission we have made, but I will give a summary of the highlights.

The Torres Strait Island Regional Council is scattered between the tip of the Cape York of Australia all the way up to Papua New Guinea. You can see on page 3 of our submission a map of our local government area. You are probably familiar with it. We are responsible for 15 discrete communities in the outer islands of the Torres Strait region. To provide some context to the panel today, Saibai Island is just four kilometres away from the western province of Papua New Guinea. It is very, very close. Our islands comprise sand cays in the inner cluster, to volcanic rock in the east, to sedimentary deposit in the north from the Fly River which is coming through Saibai and Boigu islands.

Some of the region's greatest challenges which exacerbate the challenges that the council faces each and every day are coastal erosion and tidal inundation, particularly for Saibai, Boigu, Masig, Poruma, Yam and Warraber islands. We have recently had funding of $22.6 million to construct a seawall, which you might be aware of, at Saibai and Boigu islands. We have just finished Saibai. We have approximately another $1.7 million to do Boigu, but there is a lot more work to be done at Masig, Poruma, Yam and Warraber, and also at Boigu to finish the works.

Other challenges include reconciling traditional rights and interests of Torres Strait Islander people vis-a-vis Western law. Potable water shortages require the use of desalination plants to produce fresh water from the sea, which is a great expense to the council. There are public health risks due to our proximity to PNG including multidrug resistant tuberculosis, Zika virus and Japanese encephalitis. There are also costs that we bear as a council of some 50,000 traditional visitors who come under the treaty every year using our infrastructure. We have a population of only about 5,000 people so it is about 10 times our population. That hits us every year and we are not compensated at all for that from the federal government or the state government.

Other challenges include the cost of living due to remoteness and the cost of freight and transportation due to remoteness. There is also land tenure complexity due to the determination of native title on 14 of our 15 communities, with our 15th community being Hammond, which is still at the claim stage. That will be determined at some point in the future. There are patchwork land tenure

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models up there as well which move from deed of grant in trust to reserves to a landholding act—or Katter leases, you might know them as—to 99-year leases, subleases and tenancies. They are all over the place. We have a patchwork of land tenure which makes it very complex.

Some of the other challenges include: ageing essential-to-life community infrastructure without sufficient renewal funding; a lack of economic development and employment opportunities which drives a welfare dependence and reliance; and a lack of funding for holistic and compliant waste management strategies. Those are just some of the regional challenges that we have which adversely affect to varying degrees council's long-term financial sustainability.

In addition to it being geographically complex, obviously it is culturally and linguistically complex as well. There are over 42,000 square kilometres to the north. It brings about logistical complexities and increased costs in providing essential-to-life infrastructure. It duplicates a lot of the infrastructure that we have out there. We have to have it 15 times for our 15 communities because they are all separated by sea.

I will give you a bit of a snapshot of our finances. In the 2016 financial year—the current financial year—council's budgeted revenue base is $68.1 million. Our expenditure is $66.8 million. If that was alone we would be sitting pretty. Of course, we then have the depreciation of some $40.6 million on top of that, which results in a net operating deficit of $39.3 million.

Although we do achieve a modest operating surplus, you then have to bring in the depreciation under the line, which is substantially unfunded and expected in 2017-18 to tip $1.3 billion worth of assets. That is what we have on our books. For the 2016-17 financial year it is $1.1 billion. We are expecting that to go up to $200 million in the next year due to revaluation.

You can see on page 4 the split of those assets. We have a very good understanding and sophistication when it comes to our assets. We know what we have. We know what it costs. By far our greatest single category is our 930-odd social houses that we manage and own, valued at $511 million, which we have to insure as well.

In summary, our greatest challenges as an Indigenous council—and I am sure it is the case for our colleagues also here today, but it is certainly amplified for the Torres Strait—in achieving our long-term financial sustainability are: firstly, the extreme cost to construct, maintain and renew our assets to start with; secondly, limited additional revenue-raising capacity which is hampered by our complex land tenure structures; thirdly, insufficient and complex grant funding—and I echo some of the concerns raised by Douglas Shire Council in relation to the complexity of acquittals and reporting which sometimes far outweighs the money that you are receiving; and, fourthly, unachievable sustainability performance indicators which are set by the Department of Infrastructure, Local Government and Planning. It certainly paints innovative Indigenous councils in a very bad light when you look at the QAO reporting, particularly to parliament.

I am certainly very confident that we have a level of sophistication at a financial level now which is very high. At the same time, we have these complexities beyond our control when it comes to funding our renewals and our ongoing maintenance which are outside of our control. That does drag us down every time when it comes to audit. You will see the green lights that we get when it comes to our unqualified audits, yet it still looks bad on paper when you look at the sustainability because of the assets, which we have inherited, as part of 15 Indigenous councils all coming into one with the local government amalgamations.

Page 7 gives you a bit of an idea of the per head figures. For the Torres Strait Island Regional Council we have about $244,000 worth of infrastructure per person in our local government area. If you then have a look at the other Indigenous councils, which of course are still very high, for Napranum, Yarrabah and Torres shire it is $60,000 per head. Then if you have a look at mainland councils such as Townsville, Tablelands and the Sunshine Coast, it is $24,000 per head. You can see it is $24,000 per head on the mainland versus $244,000 per head in the Torres Strait region. It is quite amazing.

Council is only able on average to undertake approximately 10 per cent of the required maintenance and renewals suggested in its asset management plans. In terms of the sophistication of the asset management plans, we have been working very hard on those over many years and we are almost getting to a stage now where we are setting service levels for some of those as well. They are obviously compared against community surveys, which we have been doing to see the expectations of communities and what we can do for the dollars.

I have already touched on the deed of grant in trust and the difficulties that we have there. I would like to touch on the inability to generate revenue. I think we do a very good job. You can see on page 4 that our own-source revenue is 12 per cent. Our recoverable works under our building

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services unit is 46 per cent of our revenue. That is work that we do under the National Partnership Agreement on Remote Indigenous Housing constructing housing for Indigenous people and providing employment. Well over 50 per cent of our funding we have managed to generate from our recoverable works programs and maritime fees which we charge for the use of our infrastructure by Sea Swift, Mipec and the other operators docking.

We have things in place, but we are certainly hampered when it comes to general rates. We have a very low rates base of 5,000 people. Some 930 households of those 5,000 people are social houses. Even if we could rate in DOGIT land, which we cannot at the moment, you cannot rate tenants. We would be rating ourselves as the trustee—and we are not funded as the trustee—or you would be funding one of the other Indigenous trustees such as the Mer Gedkem Le at Murray or the Mura Badulgal at Badu Island who are trustees of the land which was handed over in 2012 and 2014 respectively. You would be rating them and of course they do not have the capacity to pay either. We are just stuck with what we can do. Over 50 per cent of our revenue is coming from things that we have put in place. We also charge commercial rates. I might leave it at that.

CHAIR: Melissa, do you have anything to contribute?

Ms Barmettler: No, not at this stage.

Mr McLaughlin: Maybe in relation to the questions.

CHAIR: Both councils have a full understanding of what their assets are. The committee needs to get an understanding of how you prioritise the maintenance and replacement of those assets. Do you get any cooperation from government in that regard? You must have a swag of assets. Every year that goes by they would need to be replaced, upgraded or whatever. How do you prioritise all of that?

Mr McLaughlin: That is a very good question. We have robust asset management plans in place for each of our asset classes that we have listed in that big list of assets. We have an asset management plan for each one of those which helps us prioritise which assets need to be fixed and when. We do not get anywhere near the renewals and maintenance that we need. Like I said, we receive about 10 per cent of what we need to maintain those assets.

As my colleague the CEO from the Douglas shire said, Works for Queensland has been a fantastic program for us. It is a real flagship for the current Palaszczuk Labor government. Mayor Gela and I were down in Brisbane last week and were sending that message as well. The $1.875 million that we received out of the project was not connected to new assets and not connected to ribbon cutting. This is money that we can pump straight into our failing assets to ensure water security, to ensure that community infrastructure such as recreational centres with roofs falling off and big holes in them, which are condemned at the moment, can be fixed. This is real funding for assets on the ground.

The thing that concerns us the most in relation to all of the plans that we prepare, all these legislative requirements that we now have—and we have a whole team to deal with these sorts of things to ensure we get greens lights—is that we feel, for all intents and purposes, that there is cursory consideration of those at a QAO level and no real strategic planning when it comes down to the state government. Do they look at our asset management plans? Do they utilise those asset management plans to work out on a needs basis where the funding should go? Sure, we can establish a need—and we establish them on our audit results year on year—but the money does not flow. I am very appreciative—and the council is, too—of the Works for Queensland program.

Mayor Walpo: We are challenged every year by our remoteness and weather and road conditions. Generally there are levels of depreciation and other things at any one time. I will ask Marina to elaborate on that.

Ms Schaefer: In terms of prioritising our assets, for a remote area like Aurukun council looks at the core assets that provide essential services, for instance water, sewerage and housing. We have an asset management plan so we know exactly where the assets are and the condition of the assets and we do periodic revaluations of the assets and inspections are undertaken by our technical services. We know the condition of each house, the condition of each road and the condition of the water and sewerage infrastructure. We have that in place.

Our priority would be water and sewerage infrastructure. This year we submitted a proposal to the Department of State Development and they granted us $1.1 million to upgrade the sewage pumps in Aurukun. We received another $2.5 million from Works for Queensland. Over $1 million of that grant is to refurbish our revenue-raising contractors camp. We will be raising revenue out of that because of the rent and leasing. That is the priority for us in terms of Works for Queensland.

Another priority would be staff housing. We do not have enough staff housing in Aurukun so we cannot attract permanent staff. They stay there for three months. They see the condition of the staff housing—they live in dongas—and most of the time they leave. They are the priorities.

In summary, the priority in Aurukun is the core services—water, sewerage and housing. We have not gone into creating new assets because we simply do not have the funding and the capacity to create it. We are also looking at the maintenance of our assets. We have scheduled maintenance every year. This is how much we spend and it comes out of council revenue.

Mr PERRETT: I have a couple of questions for the Aurukun representatives and then a couple for the Torres Strait representatives. I note in the Queensland Audit Office's assessment of annual reporting in Aurukun that Aurukun's financial statements had not been audited for the previous three financial years. For some sustainability ratios, insufficient historical data was available to complete an accurate assessment. What was the struggle with getting that data? Why was that information not available?

Ms Schaefer: We have had audits. In 2015-16 it was a little bit late for the simple reason that at that time I was the fourth finance manager in one year and also there were no accountants. That was the main reason. Another thing is that the 2015-16 year was held up because we did not have any executive management in the technical services and it was held up because of the roads valuations. They wanted us to go back to 2012 to look at all of the valuations. When I say 'they' I mean the QAO and the contract auditors. There was nobody who could help us with that, because they had already left.

At the same time that I started, we also had four directors of technical services. I started in September 2015 and we did not have the history of that. We even had to go as far as ringing our previous directors to find out the history of the roads and also the infrastructure. That is the only reason I can think of that the financial statement was late by a week. We had everything prepared already. Having said that, we are now working closely with our contract auditors, BDO, to set the schedules and set the time lines of how we can achieve the completion of the financial statements.

Mr PERRETT: It was mentioned earlier that you are obviously heavily dependent on external funding grants and the like. What work does the Aurukun council undertake to inform both state and federal governments of your grant funding requirements?

Mr McCarthy: We have a full-time grants officer and we really pursue seeking grants.

Mr PERRETT: It was also mentioned earlier that the grant funding would appear to be insufficient to cover the day-to-day operations of council. What work do you do to inform the process—not specifically applying for various grants, but just to make certain that the grant funding does meet the basic requirements of council? What work do you do to demonstrate to both the state and federal governments? Do you undertake that sort of work to give accurate information to that process, to make certain that you get sufficient funding to run the basics of the community?

Mr McCarthy: I believe we do. Marina, you can better answer that.

Ms Schaefer: Yes, we do have certain processes. For instance, a lot of our services are what we call community service obligations, such as the IKC, the Indigenous Knowledge Centre. We get funding of $34,000 from the State Library, but our expenditure is over $100,000. That includes a part-time librarian, because we could not get a full-time librarian or a permanent librarian. They leave. We look at all of this and put this in place by saying, okay, we need funding for the IKC and also, for instance, for the community centre. The community centre is currently refurbished by—is it DATSIP, the Department of Aboriginal and Torres Strait Islander Partnerships?

Mr McCarthy: It is the Department of State Development. That is being developed as we speak. The problem we see is that department people come along and say, 'Righto, we'll do this for you,' but then they leave you in the lurch as to your operational expenditure going forward and your depreciation expenditure as well. Government has all these great ideas and we appreciate those, but we always get left holding the baby. For example, there was a CCTV system put in worth $1.7 million, but the council pays the operational costs. It is used predominantly by the Queensland Police Service.

Mr PERRETT: That is what I was wanting to hear about, to get a bit of a feel for it.

Mr McCarthy: For instance, with the CCTV system, we thought it would be good if a government department, such as Queensland Health, paid for the two cameras that are located on their property. We put in a letter to the Torres and Cape Health and Hospital Service, but they refused. They have two excellent security cameras sitting up in the middle of their property under observation with CCTV and they do not pay; council pays.

Mr PERRETT: Thank you. That is what I was wondering.

Mr McCarthy: There are other examples like that.

Mr PERRETT: I note some of the challenges that the Torres Strait Islands have. You manage $1.3 billion worth of assets across a vast area with different communities and all the intricacies of those communities that you are challenged with. When you look at the books, it looks like there is a day of reckoning coming for the Torres Strait Islands in respect of the asset base that you manage and, even though you have a small operating surplus, not being able to fund any or very little of the depreciation of what I imagine would be very important community assets. Where does the Torres Strait Island Regional Council go, because I assume there will be a day, based on the figures that we see before us—and I suspect you do not have too many funded reserves with respect to any of the asset replacement?

Mr McLaughlin: Not even close to that.

Mr PERRETT: What do you do? It seems to me that this is an acute case in respect of the challenges that you have and the communities that you represent.

Mr McLaughlin: We have our recoverable works program and those sorts of things which run our operations, but it does not touch any of those assets. We call for reviews. We make sure we jump up and down so that people come and do independent reviews. For instance, we have had DATSIP undertake a review of our assets and our condition assessments so that they can see, from their point of view, where we are at. We have also had the Queensland Treasury Corporation undertake a review. We requested both of those so that they can come in and look at our books and see how we are tracking with forecasting and those sorts of things. They can see that the concerns that we are raising are legitimate and their officers can come to their own conclusions.

Of course, we undertake advocacy. We do that very strongly. We were in Brisbane just last week and two weeks ago we were in Canberra during the sittings. We have met with over 50 senators, crossbenchers, ministers, members of parliament and opposition shadow ministers over the past three weeks. That is what we do. We have very clear and focused deputations, where we have done costings and we request that assistance.

Year on year we are having money pulled from us as well. For instance, water and waste operations are federally funded and $2.8 million has been pulled out of the 2016-17 and 2017-18 budgets which we have had to fill. We still manage to work around that and try to not affect ground or grassroots services, but we are in a position where we are foreshadowing a $12,000 operating surplus next year. It is nothing, in the end. On top of that, we have this liability for locality allowance which, as a result of the new local government industry award, could mean $1.3 million that we have to find for that as well. Where does it end? Not only is the playing field changing from an operational perspective; we are not getting ahead from a capital perspective, either.

Mr PERRETT: Are your asset management processes rigorous enough to predict when some of these important community assets may fail, such as water, sewerage and others?

Mr McLaughlin: Absolutely. We have asset condition assessments for every single asset that we have. We can see when they are going to fail and they do.

Mr PERRETT: Presumably, when water and sewerage and other important community infrastructure fails, you have all the health problems and other secondary issues that then come because of it.

Mr McLaughlin: Absolutely. We have also had those discussions, for instance, with DEHP, which thought it would be helpful to the council to issue compliance notices to bring consideration to council's plight. That is not helpful at all. What we need is funding so that they can fix these issues.

Mr PERRETT: Presumably, with some of those compliance things there are significant penalties?

Mr McLaughlin: Absolutely.

Mr PERRETT: So if you are not in compliance, you are fined. That compounds the problems that you have.

Mr McLaughlin: Absolutely, so we spend all of our time responding to the compliance notices. We do not get many, but I am giving an example, particularly for water security and those sorts of things. We spend all of our time replying to these things rather than fixing the issue, which is a resource drain.

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Mr CRAWFORD: My question is about tourism. We have had this conversation with a number of the councils that have come before us. There is obviously a big range of differences between the councils that are impacted by tourism and those that are not. Will the tourism impacts on your council, either now or into the future, be positive or negative? Some councils have sat in front of us and said that large proportions of their revenue come directly or indirectly from tourism. Other councils have said that it is a burden, as they pay for a lot of waste and other infrastructure that tourists use as they pass through but they leave very little behind in relation to revenue. The other day we were at Aurukun, as you guys know—and thank you for that visit. The tourists will find Aurukun at some point and they will pass through. I am sure you guys already have them up there. I am interested in the thoughts of the two councils in respect to that commentary.

Mr McCarthy: I am quite happy to answer that. Tourism is in a fledgling stage with us. We have ATAG, the Aurukun Tourism Action Group. We have recently completed accommodation, the Wuungkam Lodge, and Pikkuw's Restaurant, which we believe provide a base. We have brought all the players together. We have the arts centre there. We believe that we have enough product for daily visits or a couple of days visit.

We believe that there is great scope for people to go out on country with the cooperation of the traditional landowners, but at this stage they are resisting that. We hope in the future they might change things. We honestly believe, as a council, that there is a good future there. There are a few things that could be negative—not negative factors if we got tourism, but there are a few things that have to be controlled. We do not want tourists with great big cameras rushing around town taking photographs, because it is not culturally appropriate. It would have to be in a controlled environment. I have had exposure in the Northern Territory where I have seen Tiwi Tours go to Bathurst Island. People came from Darwin every day and they also had stopovers of one or two nights on other trips.

There is a very good basis for it in Aurukun at this stage. It revolves around scenery, the bird life, the art and cultural exchange. We believe that we have local people who could be employed gainfully to act as guides. Generally a lot of tourists and non-Indigenous people have never met people who live in Aurukun or elsewhere. I believe there is a great opportunity for that to occur. We have already had inquiries from specialised groups like Captains Tours that fly in. You have the high-end people. We believe there is scope in the not-too-distant future—I would say in the next two or three years—for the commencement of that.

Mr CRAWFORD: Bernie, from a financial perspective, obviously council will have some expenditure that goes along with that, such as having to clear a rubbish bin that is X kilometres away that people use as they pass through, versus the income that you can get through landing fees at the airport or different things. Do you see that positively you will be able to strike in the black there?

Mr McCarthy: No, that is a cost that council would be happy to incur to get the input of tourist dollars coming into town.

Mr McLaughlin: I guess the challenges that we have as local government—and no, we do not have tourism at this point. It is very low, particularly for the outer islands. I cannot speak for the Torres Shire Council, where there is a bit of tourism occurring. Certainly for the outer islands there is not. There are two main impacts to that and economic development. One is the land tenure and the fact that we do not have freehold in our communities, which is an impediment to small business. People cannot secure loans against their land and those sorts of things to be able to start up small businesses, whether it is resorts or fishing charters and those sort of things, which they need to do to attract the tourists.

Another issue is the adverse costs for tourists of getting there. Having spoken to some tourists in the past about this, it can cost $4,000 just to get to Ugar by helicopter—that is, Stephen Island—or $2,000 elsewhere. That is a lot of money to spend just to get to your destination, in addition to the other travel, whether you have come from America or wherever else. It is expensive. Certainly the cost of accommodation and the quality of accommodation that council can provide—we are the main provider of accommodation on all 15 communities—might not be up to the standard of those people travelling, because, again, we cannot maintain them to the level that we would like to. There is a lot. You can see there the pressures that council has. The environment is not right to promote tourism at this point.

Mr KNUTH: Chris, you talked about the inability to generate revenue. You are looking to apply your funds and grants to try to get the Torres Strait Islands into operation. Is there any incentive from the state and federal governments to help you create a revenue base to get that return?

Mr McLaughlin: We are looking at communities ourselves in relation to joint ventures with organisations such as freight companies and those sorts of things. Again, those are things that we are exploring: opportunities for funding through government of those sorts of opportunities, for instance, through NAIF, the northern infrastructure fund, at a federal level and those sorts of things. Certainly we are not approached by the state or Commonwealth governments in relation to economic development opportunities—absolutely not. It is something that we have to come up with and then seek funding for.

CHAIR: Thank you, ladies and gentlemen. I express my appreciation to you for being here today and for your input. By having the opportunity to ask various questions of a lot of different groups, we can come up with a line of answers and suggestions that we can recommend be put into practice through government. Thank you for your input. We hope that we can put together a good report.

Proceedings suspended from 1.19 pm to 1.55 pm

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IRVINE, Ms Darlene, Executive Officer, Far North Queensland Regional Organisation of Councils

SCOTT, Mr Peter, Mayor, Cook Shire Council, and Deputy Chair, Far North Queensland Regional Organisation of Councils

CHAIR: I welcome our next witnesses. Peter, would you like to make an opening statement?

Mayor Scott: The Cook Shire Council is the biggest land area council in Queensland. It holds a privileged position as far as being the only mainstream council on Cape York. We interface with all of the other Indigenous shires on Cape York, so we play a very responsible role as far as service provision, infrastructure and advocacy particularly in the development of those Indigenous communities. We have a very large area—106,000 square kilometres. Our own income is about $8 million a year from rates, charges, gravel sales and other little bits and pieces without grants. Our recurring operational expenses are over $20 million a year. At the outset, our sustainability does not look like it is even feasible. We rely heavily on financial assistance grants, which is about $8 million or $9 million a year, and the R2R, the TIDS and the other funding opportunities that come through.

Most of our capital expenditure, if not all of it, is very much related to grant money and projects coming through, including the NDRRA funding that comes through. It is a bit of an interesting but perverse circumstance whereby we look forward to getting cyclones coming through. As our shire takes up 80 per cent of Cape York, we are almost assured of a cyclone somewhere in our shire during a financial year. That does give us income for council, not that there is much in it. It enables us to employ some staff and also our constituents through contractual work out wide.

In terms of this committee's view of life, we are not financially sustainable in our own right. It is because we do play that important social role and we have used resources like FNQROC to help give us a great return on what limited funds we can put into that. Darlene will probably tell you more about this. We had an independent assessment done a couple of years ago. For each dollar we put into FNQROC we get $23 back. That is a 230 per cent return. That is the sort of thing we need to do. We are constantly looking at ways to reduce expenditure and add opportunity and come up with income-producing projects as well.

Our big problem is our asset base and our depreciation cost. On our balance sheet we probably have $300 million or $350 million sitting there. Most of that is roads. There are about 2,500 kilometres of road. The depreciation figure on those roads is about $8 million a year, and that is our other assets as well. From a profit and loss point of view, we go close with grant and other money to almost breaking even without depreciation. Once you factor in depreciation, we are $8 million in the red just about every year. That is our challenge. You could say it is just an accounting issue. If we could get the NDRRA people to say that our road damage is expenditure rather than a capital expense, that might help us a little bit on paper.

The bottom line is that we do not have enough people to service the area that we have to administer. We take our role very responsibly. As far as providing services and necessary facilities for a very broad region, we just do not have the necessary income. We are very reliant on state grants and subsidies, some of which have been withdrawn in recent times. I will allow you to ask a few questions and I can expand on my answers.

CHAIR: Darlene, would you like to make an opening statement?

Ms Irvine: Thank you for the opportunity to meet with you all in Cairns. I would like to offer apologies from Councillor Ross Andrews, who was supposed to be here at one o'clock. He turned up at nine this morning not realising that he was supposed to be here at one. He has sorry business at the moment and his CEO is on leave, so he apologises.

CHAIR: Thank you.

Ms Irvine: I have had the benefit of listening to today's hearing. Knowing that you have our submission, I would like to clarify or build on some of the questions or statements made throughout today. With 13 member councils from Ingham to Hope Vale and out to Carpentaria, I am sure you appreciate the diversity of the issues and concerns in relation to local government sustainability.

I would also like to point out that FNQROC is not just procurement. You have heard a lot about procurement from FNQROC today. We have a focus on asset management and a regional development manual which guides all the civil engineering work within the region, planning diversity, economic development as it relates to local government infrastructure, and then anything else which is an issue or a priority for the majority of the member councils. We have in total 14 technical committees. All our member councils contribute to those 14 technical committees in sharing

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knowledge and experience and developing projects. We have also developed numerous regional tools for benchmarking and benchmarking for member councils, and they are identified within our submission.

One of the things I will identify in terms of assets is that there is a problem with predicting some asset lives. A lot of infrastructure could last 50, 60 or 70 years. It was put in in the fifties. Examples of failures are few. There have been a lot of times when councils have put an end-of-life term on an asset only to realise that it will last much longer. That then has an impact on their financial statements.

Some questions were raised earlier with regard to procurement and how we fit with Local Buy. Our focus is only on those activities where councils are competing against each other and causing an increase in cost and/or a decrease in service levels and where we may gain efficiencies for coordinating that delivery of service. It goes into the minute details. We are not about taking from Local Buy and we are very particular about not taking from local business. It is those things that will be of real benefit to councils.

As a small organisation, our focus is currently limited to bitumen and asphalt programs, water chemicals, waste steel and batteries, and biosolids. We do minor activities like regional quotes—for example, we recently audited our drinking water quality management plans. Member councils in these arrangements are now mature enough that if one or two lose an arrangement the whole region will contribute to make sure everybody is benefiting. We have an example at the moment of one council which is going to significantly lose out on a regional arrangement, but overall it is a significant benefit so the other councils are contributing to offset that loss, which I think is quite mature.

With regard to meeting community expectations, there are numerous examples of people expecting the same services and experiences coming up here. There is a drive to push population here but they are expecting the same level of service. What we do not see from the state are intervention levels for state or federal provided services. Some councils, particularly remote ones, are filling the gap to support their communities which are, in turn, supporting the state and national GDP. The state government is devolving more and more to local government without appropriate resources. James Gott and Linda Cardew gave examples of where this information could be accessed.

With regard to Works for Queensland, we absolutely support the process. It was simple and indicated a level or culture of trust in councils—something that has been significantly missing. It is in stark contrast to the process we have gone through to access the announced beef roads funding. It is extremely frustrating and time consuming. We are having to develop project proposal reports for $4 million for a beef road in Richmond-Croydon. The same templates of project reports are used for $120 million for the Bruce Highway. It is unrealistic, and that is on top of the application process. It is a frustratingly long and tedious process, the resources for which Croydon Shire Council do not have and we have been developing that up for them.

In terms of legislative pressures identified today, an additional example is orphan spills, which were previously the responsibility of the old EHP which are now the responsibility of councils. With regard to the Integrated Planning Act moving to the Sustainable Planning Act in 2009 and now to the Planning Act 2016, the state is kindly giving councils one year to prepare before it comes into force on 3 July. However, as yet the regulations are still incomplete. In February-March councils were offered a one-off payment of around $40,000. To receive the one-off payment, councils needed to sign an agreement stating that their development assessment system would be compliant with the new act and regulations on 3 July. That is a frustration for councils.

I turn to the licensing conditions for water and sewerage. Councils in this region face more stringent requirements due to the Great Barrier Reef, which is arguably a national asset and should be funded by taxpayer money rather than ratepayer money. NDRRA consistently has no clarity of reimbursement. Councils wear this risk. It is also often forgotten that councils fund other restoration works outside of NDRRA eligible works such as water, sewerage, community buildings, foreshore protection et cetera. I am sure there is an additional list there.

Each state department thinks they are only giving a little bit to councils or passing on a little bit for them to do. There is no funnel at the state level that these little bits need to go through so the state has a good understanding of the impact they are placing on councils. Each of these little bits adds up to a lot on the ground for council. The smaller the council, the bigger the impact. I will leave it at that.

CHAIR: I would like to get some feedback from you in the role that you play. We have heard discussions from just about all witnesses who have sat before us so far around asset management. We have had comments like, 'We are putting a lot of work into it to get it right,' and, 'We have now employed people to help us do that.' It seems to me that there has been a recognition in the past couple of years that they have a problem with asset management. Have I nailed that?

Ms Irvine: Kind of, yes. Back in 2005 some council staff members came to me and said, 'Darlene, we have an issue with asset management. We cannot get management to understand or see it.' I was quite surprised that it was not something that happened as a matter of fact back then anyway. We started our regional asset management strategy back in 2006 with the support of the CEOs as a collective. Because management and senior management did not understand it and did not understand the implications, it was the way that councils were historically run. It was the way that the state, arguably, was historically run. It was not about whole-of-asset management.

Through that process there was very little support for councils in terms of what it meant and what they needed to do. The only training regime that occurred at that time was through IPWEA and the Nams.Plus process. I think we trained about 60-odd people with the support of the Roads Alliance funding half of that. There was never a carrot-or-stick approach from the state. When we had the community plan, the long-term financial plan and the asset management plans, I thought it was awesome the way they had to interrelate and connect, but it disappeared when people were starting to get it. It was a requirement under the legislation but that lessened and there was no stick. There was nothing to force it.

It is only now, when it has become part of the ratios and the asset sustainability ratio, that it has started to come more to the fore. For this region up here, you will find that our asset sustainability ratio is quite high, and that is a consequence of NDRRA funding having an impact on that. We will see that flow through in future years where that ratio will decrease if we do not have an event.

Mayor Scott: I agree completely. I have already mentioned to you that we are financially strapped. The project money for any capital expenditure normally comes via grants. The vast majority of that money is for infrastructure—for tangible things that can be seen, opened up and celebrated. That is for funding not just by the federal or state government but also by the local council.

Whole-of-life costing—asset management, the implications of depreciation, operation, maintenance and replacement—I think misses out from a certain naivety in the past about what it is going to cost in the long term. Provisions were not made and provisions cannot be made in a lot of cases. In our case, we cannot make provision for what we are replacing recently. In the last 12 years we have put in a new sewage treatment plant that can cater for a town twice our size because that is what we need to do. We need to get more people out in line with regionalisation and the Northern Australia Infrastructure Facility, but the replacement, operation and depreciation of that big plant is something that we are hoping will get more people. It is almost a 'build it and they will come' ideology. That is the same with our water supply and with our road network even more so.

This whole-of-life, long-term thinking about maintenance was typified by the early NDRRA methodology. I mentioned before that roads are our biggest asset. This year—we have just been activated, thank goodness—we will be spending $20 million or $30 million out there. We have to factor in betterment. We have to factor in mitigation to make those things sustainable. What was happening in the past as a means of getting money out into the cape, keeping people employed and ticking a box was to just bring it back to what it was before, which in a lot of cases was a dirt or gravel road which of course was going to wash away the next year. That short-term thinking I think came from the top down and has filtered through until, as Darlene was saying, it is only the last few years that we have become a lot more focused on whole-of-life costing. We need project management discipline at the outset that looks at the longer term implications as well.

There is also the fact that you do not argue the toss. Cooktown waterfront, which you had a look at the other day, is a classic example. There was a project that was going to take us 20 years to do and we were going to gradually pick away at it. Jeff Seeney gave us $3½ million and the other bloke gave us half a million and we were told, 'There you go; it has to be spent in 18 months.' We had a contractor up there, because we do not have the benefit of a lot of different people being able to tender for a job. We had to accept this bloke. He mucked us around for six months and shot through and left us six months behind in our project. We had a dredge parked in there. DTMR organised a dredge on its way from here to there. We had to have that job done with a rock wall completed and the geofabric in there, so that was rushed through. Then we had two cyclones hit us two years in a row. The whole thing was compressed into something that had to happen very quickly.

The point I am making here is that we do not have the benefit of funds sitting in the reserve. If something comes up like that, you have to go for it and you have to do it. In our case that was not done terribly well. It will be okay in the end but that typifies what happens in these remote and regional areas: 'There's a bit of money. Go and spend it.' The long-term ramifications have not been taken into account as much as they are now.

You mentioned an asset management role. We have an asset manager now. He has done a comprehensive assessment of the state of all our assets and we are going to be flat broke in less than 12 years if we have to replace and remediate all of what is there at the moment. We now have to go through the process of saying, 'Do we want that?' At Coen Airport we have a number of old buildings which our staff use when they are up there. They are on our books. They are costing us a lot of money from a depreciation and maintenance point of view. The best thing we can do is bulldoze them and get our staff to stay in accommodation in town because those assets are costing us big money.

CHAIR: That would be a decision of the council.

Mayor Scott: That is right.

CHAIR: What about the historic value of it? Is that a consideration?

Mayor Scott: Fortunately, they are not heritage listed.

CHAIR: That is a good thing.

Mayor Scott: However, they do have asbestos in them. That is the other issue.

CHAIR: I support heritage listing 100 per cent, but no-one seems to think about who is going to pay for it. That is the problem with it. Are you seeing a problem across all of your councils with regard to the same sort of thing that Peter has been talking about in terms of having the assets there but not being able to pay the ongoing costs of maintenance and replacement?

Ms Irvine: There is consistently an issue with having assets there that probably should be retired but are not because of community pressure to keep them open. There is also the issue where councils are given assets from the state that they did not necessarily want or were pressured to take. I will cite an example in Yarrabah where a new jetty is being built and TMR is pushing for Yarrabah to own and maintain that jetty afterwards. For an Aboriginal shire council, that seems a little unfair, given that in the majority of other places TMR owns that infrastructure. We are seeing more and more that the state builds infrastructure and then passes it on to councils and the councils do not have the ability to fight back.

CHAIR: They are reluctant to say, 'No, we don't want it,' simply because their community does.

Ms Irvine: That is exactly right. The community wants it, and if they do not take it they will not get anything else to replace it. What is needed at Yarrabah, as an example, is huge. They need social housing. They have 4,500 people and they need 700 houses. I think at the moment they have 346, off the top of my head. They need social infrastructure to bring the community together. They need paths. They need street lighting. The state put in a development there and did not provide any street lighting, so now the council has to fund street lighting for safety and protection. That is the sort of thing. Water and infrastructure need to be upgraded there, but they are not given the support. They are given a jetty, which they want, but they do not have the capacity to maintain it either financially or in expertise.

Mayor Scott: There are two components to this grant funding that are severely lacking. The first is the feasibility study and developing a business case. There is not much money out there to do that. They are relying on councils to do that. The second is operational money going forward. What we get is the middle piece, which is 'build it', but we do not have that in there. A lot of the grant guidelines do not allow for that.

Mr PERRETT: Thank you for coming in. I want to say to you, Mayor Scott, that your executive officers and councillors looked after us very well when we were there. We very much appreciated having a look around, so thank you for that.

I want to concentrate on the specific challenges you have as a council. You identified earlier that you believe you would be financially unsustainable given the area you look after. My question is to do with the assistance you receive, particularly the grant funding you can apply for. I noted your comment about the work that is being done down the front and the fact that previous governments turned up with a certain amount of money and told you that you had to get it done within a certain time. That would appear to be the case at the moment with some of the funding that is made available through the Works for Queensland process. There are some fairly tight time lines for councils to meet the requirements to get that funding and rush off and do whatever they are going to do.

That is different to what was there previously, with the guaranteed funding for key infrastructure projects like water and sewerage. That came through either a 40 per cent subsidy from the state or SCAP funding—Smaller Communities Assistance Program funding—which went to councils like yours. That guaranteed you 80 per cent funding. You could rely on that, rather than something coming

PROOF

out of left field. I want to get your thoughts on that. This committee will eventually provide a report to the parliament and presumably make some recommendations. A council like yours that is financially unsustainable, as you indicated earlier, does provide some basic services to the community. Would a solid stream of funding that was not contestable—that was reliable—be more advantageous than having bits and pieces come at the whim of governments to suit certain political causes at the time?

Mayor Scott: We are in a good situation at the moment because we have had a couple of bad experiences over the past couple of years. There was a blow-out in the waterfront project and there was a blow-out on a private job we did down at Woobadda Creek which was work we did for Douglas shire. As a result of that, we have lost our CEO and we have lost our engineer and we are in a total restructure now. Everything that comes out now is looked at very closely. We have employed a CEO specifically for his audit compliance probity strengths. He is a founding partner of BDO Kendalls. You met Tim yesterday. Our engineer is a new engineer. He is very risk averse. Going forward, we will not make those mistakes again while we have this structure in place. All of our senior staff have undertaken project management training and discipline. We have audit and risk committees in place and project risk committees in place.

To get back to your specific question about a stream, anything that came in ad hoc or was one-off—like the previous tranche of Works for Queensland—we have applied that and it is going to work well. We really do appreciate it. This is something that Darlene said, and I have heard it echoed throughout FNQROC—that is, we appreciate the government giving us a bit of trust, a vote of confidence, to say, ‘Go out and use this wisely.’ We have got the historical problems of NDRRA money not being used correctly in the past.

Importantly, we have to be looking after the load on our ratepayers. Electricity prices are going through the roof and that affects the operation of everything—as with water, sewerage and day-to-day living. Perhaps we could have some form of steady stream of income to support operational day-to-day things. You are talking about councils and you are talking about ratepayers. We see ourselves as one in together.

We could build more cost-efficient things. We have one project in mind at the moment. If there was another outlay of Works for Queensland, for example, we could look at putting a mini hydro scheme on our water supply which would save us $70,000 a year. That is quite feasible. I was just about to say that we could pass that on to our ratepayers, but the problem is that we cannot because our water and sewerage costs us, in a loss situation, $400,000 a year. It is just making a little dent, I suppose.

It always makes me smile a bit when I hear terms like regionalisation, the Northern Australia white paper, decentralisation and those sorts of things. The cost to us to run our operations is not factored in, like the cost for people to stay out there. Again, with the regionalisation process that we are hearing is going to come out of the Cairns Base Hospital, we will get perhaps another 20 staff and families coming to Cooktown over the next five years. We are talking now to the health department about going into a partnership to build houses to cater for those people. Even if we did double our population, it still would not have the necessary effect to make us viable. We would still have to pass costs back on to our ratepayers.

I know it is awfully hard for a state government to say, ‘We’re going to give you operational expenses to help keep the cost down to the people.’ I think in a lot of cases it would be the best way of doing it, rather than a tax subsidy, some sort of social security benefit or something like that. That tends to get bypassed. We see it in the Indigenous communities. If you have a poker machine—and we have two places in town with poker machines—they just feed it in, feed it in, feed it in. If we could get funding from the state or the federal government that could help us run our sewerage and water, that could help us run electricity, as they do with their cards and things like that, that would be a more direct influence and a better way of going around it. We could then pass it back so our rates bill every year might be $2,000 instead of $2,500. That would help our ratepayers and it would help our operation as well.

I do not want to say that we do not want any more capital money. What we do need is to be very focused on when those grants come through and that the business case has been established, that there is a return on investment and that it is for a genuine purpose, not just for something showy that is going to cost us money going forward. Having said that, we have gone through that process now of weeding out. We are on very much a restructure and productivity type cycle now. I was talking to Annastacia Palaszczuk a couple of weeks ago and she said, ‘Did you like Works for Queensland?’ I said, ‘I love it. Thank you, Premier.’ She asked, ‘Would you like some more?’ I said, ‘We’d make very good use of it.’ We could use it. We have things that do need replacing. It is a cyclical thing,

PROOF

though. With our waste transfer station or something like that, we have EPA requirements saying, 'You can't build another hole in the ground. You've got to do this. You've got to do that.' If we replace that, we have to look at the ongoing costs again. It is a bit of a vicious cycle.

I think there needs to be a component of study at that end and operational maintenance capability at that end as well in association with it, particularly where you do not have the ability in the council. Cairns is different. Cairns has big surpluses. Even some of the other regional councils around the place do. They have money in the bank to cater for that. In Cook and the Indigenous councils, we just do not have that operational money, that depreciation money. In terms of your question, I would like to see regular income but very much on a focused sustainability basis, and that is what we are talking about today.

Mr PERRETT: I have a question to Darlene with respect to the 13 councils that you represent as a collective. At the last sitting of parliament I hosted the Wide Bay Burnett ROC. They came along to talk to government, and they very enthusiastically said that they want to work together as one where they can to better the region. What are your thoughts on the interaction process with government? I am not just referring to interaction with the local government minister. As we know, local government can be very prescriptive because it exists under an act of the Queensland parliament. There is also interaction with other departments. One area may have the best of intentions and other departments may create issues or challenges for the local authorities. Mayor Scott just mentioned one of those about EHP and what they do in one area and suddenly you have something else somewhere else. How do you perceive the interaction between local government and state government broadly in respect of understanding the impositions and the challenges?

Ms Irvine: From my perspective, what I see is at the high level the state government does not see the impositions it is placing on councils. A recent example would be when the Cairns Regional Council put their draft planning scheme up for approval and one of the conditions that came back was that it was fine to go with the exception that they needed to advise all of the residents within the hazard mapping area that they were in a hazard mapping area. This is a state designated map; it is not local government. It was essentially pushing a state responsibility on to local government, and local government was the one to receive that feedback.

Mr PERRETT: Do you mean hazard in terms of flooding? What sorts of hazards?

Ms Irvine: Yes, flooding, storm surge and all that sort of thing. We pushed back on that and they did remove that condition, but it is those little things that go on. At the local level we have a really good working relationship with the majority of state agencies. The problem at the local level is the level of bureaucracy from the regional managers or the district directors through, and it is a frustrating process. Another example is that recently we wanted a letter of support for a bridges renewal program to replace the Anzac Avenue bridge. That is five-tonne loaded and it is just about to go down to three tonnes. We want a letter of support from TMR, and the whole process of trying to get a letter of support from TMR is extremely frustrating. We did not even get started before the applications closed, so there is bureaucracy and a sense of fear and it stagnates and it does not get built up, or if it does get built up they get squashed down. That is the frustration that we face at a local level. We can work with our local guys, but it is really difficult for them to pass up through the difficulties they are facing on the ground. If it gets too bad we do go to the director-general and we can generally get some resolution quite quickly, but you cannot do that consistently because then you start to be ignored. We are really conscious that we only do that when the need arises.

If I may, I would like to comment on what you were talking about before with regard to sewerage and water subsidies. That was removed in June 2009 and I used it as a case study. For this region our forward five-year program was $326 million, and over that five years that equated to $131.5 million in subsidies and $606 per head of population. Mareeba Shire Council is only just now recovering from that eight years on. That is the impact it has had on us. In terms of long-term forward planning, it is very limited as to what councils can rely on being able to access.

An example that I think is really good has been the TIDS program through the roads alliance. Not only does it give us some surety regardless of what happened with the last state government; the benefit has also been that we as a region have been able to prioritise. It has not been dictated by the state, which is not on the ground. It has been prioritised by the councils regionally and it is done based on a priority basis. There is no sharing of funding or anything like that. It is done based on need, which I think works really well. The accrual process and the bureaucracy process in between leaves a little bit to be desired for the amount of money that it is, but I think that is a process that works well.

Mr CRAWFORD: You were sitting in the back of the room when I asked a question of the other councils in relation to the calculation of the Works for Queensland grant. There was the $1 million and then it ran forward with your population and your unemployment so, clearly, councils like Cairns and Townsville did very well out of it. If we move forward with a process like that, they would continue to do very well out of it. My question is: do you think that is the right calculation method, or is there a better way for government to work out how much money goes to Cook, how much money goes to Cassowary Coast and those sorts of things?

Ms Irvine: When you look in a holistic context at how quickly it had to be delivered and councils' capacity to deliver, I think the methodology that was used was appropriate. Whilst Cairns and Townsville got a lot more money than the other councils, they also have the resources to deliver that funding within the time frame that was given. We do need to be cognisant of the fact that the state has priorities and it needs to deliver these things, too. I think if significantly more money had been delivered to councils they may not have been able to deliver. They may have underperformed and not met those goals. In hindsight, there are always going to be ways to improve or things that can be done better, but that comes as part of those discussions and evaluation processes afterwards. Under the circumstances it was fantastic. Peter may have a different view, but from a regional council view it seemed appropriate at the time.

Mayor Scott: We looked very carefully at where we could spend it. Obviously, in light of past experience, we did not want to end up with another this or another that, so it was restricted as to how we could apply it. We tried to spread it out across the shire as much as possible, so it could even be as little as a couple of tables and chairs up at Portland Roads but they are quite happy that they got something out of it. In that regard we can spread it around.

As far as the methodology goes, it is the old toss-up between numbers versus need. There are obviously a lot of people in the big centres, but I think you have to look at the end benefit and end gain to individuals. Take the big numbers out of it and just look at per person, per capita, and ask what is going to be the benefit to that person. What is going to be the ongoing benefit to that community as far as building capacity or attracting business or creating employment. I think job creation was one of the bottom line components of the grant. The FAGs are very much done on the capacity to service. It is like a community service obligation that you are given these FAGs to help out. Because we have so many roads in such a huge area, we get FAGs of about $8 million a year, which is fairly hefty compared to some of these other larger councils, even on a pro rata basis. I think that is probably a good equation to align it to, because it is more of a needs based amount rather than just 'we've got 100,000 people there so we'll give them that much'.

Mr KNUTH: How much is collected from the ratepayers of Cook shire?

Mayor Scott: There are two lots of rates. This is an interesting one. People say that our rates are way over the top, but we combine our rates and our service charges into one bill. Down here you might get Seqwater charging for water and some sewerage mob charging also. Ours are all in together. What we say is our land rate income is $3 million and our service charges are about $3 million, so all up our rates and charges are about $6 million a year. You would like to think that you could run your service charges—your water and your sewerage—on a user-pays basis that covers the cost, but that is just impossible. When you factor in how much it costs to build those things and the population base and rate base we have, we have to subsidise it very heavily.

Mr KNUTH: Peter and Darlene, you have delivered a great message here. You have replied very, very well throughout this hearing. With regard to the Auditor-General's report, which says that many councils have poor financial planning—you have a massive area, 106,000 square kilometres, and a massive number of roads and you only have $3 million income coming in, and I just do not know how you do it—do you feel that reports like that do not take that into consideration?

Mayor Scott: There is a quality that council is a business and should be operating as such—and trying to break even at best in our case—but there is a social and moral role as well that councils fulfil which is so important. We say that we have a massive deficit out there, which we do have, but when we go to government we have a couple of key aces in our pack: a black conscience vote and a green conscience vote. We have a big area that has a whole lot of World Heritage: the Wet Tropics and the Great Barrier Reef. The Great Barrier Reef is part of our shire as well. When we do put our hand up we often get noticed, particularly from the feds.

As Darlene mentioned before, our road network leads off the Peninsula Developmental Road, which is state road, and then you have access roads to the communities. Until they reach the DOGIT boundary they are Cook Shire Council roads. If we do not get funding to fix those up—we do not have own funding—we go to the feds and they give us consideration. Then we get assistance from you guys which comes through the Queensland Reconstruction Authority and we get that NDRRA money to help fix them up, but if we did not do that we would have Aboriginal communities out there with no access. It is a little political lever, but I see it as a moral obligation as well. That is the way we operate.

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The other thing is that we have had a lot of pastoral properties over the years which were big contributors that have been sold out and gone across to national park and Aboriginal land. There are two problems there. One is that national parks attract a lot of tourists. We still have to look after the roads, the rates and the rubbish. The other problem is that it goes through Aboriginal land, ALA freehold, and they want to do things there but their land is tied up with land tenure restrictions so it is not transferrable. I was talking to Ivan Deemal from Hope Vale the day before yesterday and he said, 'What we want is something that we can sell and turn into business opportunities and what have you.' South of Mareeba is all freehold. Native title has been extinguished and it is transferrable, it is negotiable and it is bankable, but up there they cannot do much with it.

The other problem is that we cannot rate them—well, we can rate them but they do not have to pay us because the land is inalienable. We cannot sell them up if it came down on that. I must admit, the mentality is there that, 'We'll just do what we can because at the end of the day we're not going to get run off our land anyway.' It is a problem for them. I think that national parks are grossly underfunded to deliver their services. The model is wrong: it should be the African model where they operate as businesses. I would love to put a boom gate across Lakeland Downs and have a waste levy for everybody driving up there, because the term 'the tip' has a different meaning now. It used to be the tip of Australia and now it has become the rubbish tip of Australia.

Ms Irvine: Comments such as 'poor planning' or 'bad planning' as a blanket statement without an ongoing understanding is frustrating and creates apathy. I suspect it relates mostly to the Indigenous councils and the remote councils which rely on grants and funding, but they cannot rely on how much in grants and funding there will be into the future. The issues that they need to deal with out there with limited resources are phenomenal. Unless you are out there you do not understand they are dealing with whether the doctor is going to come for this community member, or whether the Royal Flying Doctor Service is coming in to help this person who is critically ill. They are out there helping those trucks with food to get to those areas during the wet season. They are building roads outside the alignment so that they can get those trucks through for the people in the communities, and they have to do that on the spur of the moment to keep those communities moving. You cannot plan for those sort of things; nor can you plan for how much in grants and funding you are going to get into the future. You can estimate, but they are frustrated time and time again.

CHAIR: I want to throw it over to you. If you were in a position to make changes that would make it easier for you to assist your councils, what would you do?

Ms Irvine: I would love to see some intervention levels come from the state government in terms of, 'When you reach this, we will do this.' That will help us identify what we need to do to achieve certain activities or certain goals to get certain services or certain pieces of infrastructure. Councils rely on rates. We need to increase the opportunities to obtain rates, and at the base of that is economic development and supporting economic development which brings growth. We need that economic development which entices positions that will bring a family, so those positions of $60,000 to $70,000. We need to provide the infrastructure to do that. Intervention levels would be fantastic.

The other thing is having a commitment to long-term funding so that councils know what funding they can obtain and under what circumstances they can obtain it. That would make it a whole lot easier. I guess some transparency in the region in terms of the state expenditure in the region would make it helpful as well. I think it is all interrelated.

Mayor Scott: One singular thing for me as far as economic development goes is that I agree we need economic development. With economic development comes social development. They go hand in hand. One of the problems we have is the whole native title problem up there. I went to a wonderful seminar in Sydney a couple of months back about remote area power supply systems, and I had input from people who are doing philanthropic work all across the Asia Pacific. They are going into poor little communities in Indonesia or Fiji or somewhere like that and setting up a solar bank, which then created a little electricity supply which enabled them to have fridges, which created jobs, which created better social conditions for everybody. Even the Asian Development Bank was there with very concessional terms as well.

A number of times people have come to me and said, 'We want to set this up in Cape York. We have all this money and we are ready to go,' but we run into native title issues. It just goes so slowly and it gets so involved and convoluted that after nine months these people say, 'We have this money, but we are going to spend it somewhere else,' and the opportunity is lost. The Indigenous mayors are on the same page as me with this. They have people with good ideas, but the whole native title process is taking too long. We are not saying it is wrong; we are saying it is very right. Cultural heritage is a very important thing and native title is entrenched in our whole system. The time

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and process of getting those Indigenous land use agreements up and running need to be streamlined. That means getting together with the Cape York Land Council, getting together with traditional owner groups and making it happen. Sometimes the process we have at the moment drags out too long.

What I would love to see is something where the state takes on the responsibility of addressing native title. They give a business proponent a guarantee that something will be in place within nine months, say, so they have some surety going forward. If it is not signed off in nine months, you can go ahead and we will guarantee that it will be done. It might take us another 12 months, but the guarantee has to be there because we are missing so many opportunities up there on the cape. Each one of those Indigenous communities up there is aspirational. They are switched on. They want to do the right thing by their people. We set up the Regional Organisation of Councils 20 years ago. They have surpassed that. The Regional Organisation of Councils is gone now. Now you have the Cape Indigenous Mayors Alliance, but those blokes are all switched on. They know what they want to do. Peter Guivarra, who was the mayor of Mapoon, said, ‘We just want what every other Australian has and wants.’ I think the whole Indigenous land use agreements thing needs to be sorted out. It is not a tenure issue because native title is tenure blind, apart from the fact that it does not apply to normal freehold. We need an Indigenous land use system that is slick, dependable and basically guaranteed.

CHAIR: Thank you very much for your input; it has been very interesting. You have both made excellent contributions, but unfortunately we have run out of time. Thank you for your input again. Hansard, thank you: you are always spot on and we appreciate the big effort you put in. A transcript of these proceedings will be available on the committee’s parliamentary web page in due course, which usually means about 48 hours. I declare the hearing closed.

Committee adjourned at 2.49 pm

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