



INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES COMMITTEE

Members present:

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

Staff present:

Dr J Dewar (Committee Secretary)
Ms M Telford (Acting Committee Secretary)

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

TRANSCRIPT OF PROCEEDINGS

FRIDAY, 23 JUNE 2017

Brisbane

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Committee met at 7.59 am

CHAIR: Good morning. I declare open the public hearing for the committee's inquiry into the long-term financial sustainability of local government. Thank you for your attendance here today. I am Jim Pearce, member for Mirani and chair of the committee. Present with me are Ms Ann Leahy, deputy chair and member for Warrego; Mr Craig Crawford, member for Barron River; Mrs Brittany Lauga, member for Keppel; and Mr Tony Perrett, member for Gympie. Mr Shane Knuth, the member for Dalrymple, is an apology and will not be at today's hearing.

Those here today should note that these proceedings are being broadcast to the web and transcribed by Hansard. Media may be present at some time during the day and you need to be aware that you might be filmed or photographed. The committee's proceedings are proceedings of the Queensland parliament and are subject to the standing rules and orders of the parliament. Witnesses should be guided by schedules 3 and 8 of the standing orders.

The Parliament of Queensland Act 2001 provides that the committee may assess the integrity, economy, efficiency and effectiveness of local government's financial management by examining government financial documents and considering reports of the Auditor-General. 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 issues arising from the Auditor-General's reports 2 and 13 for 2016-17. Before we commence, can we please make sure that mobile devices are on silent mode. I now welcome representatives from Inland Queensland Roads Action Plan Working Group.

BRITTON, Councillor Rick, Chair, Inland Queensland Roads Action Plan Working Group

SCHUNTNER, Ms Glenys, Secretariat, Inland Queensland Roads Action Plan Working Group

CHAIR: Do you have an opening statement?

Councillor Britton: Thank you very much for the opportunity to present on the long-term sustainability of local government. I represent the IQ-RAP Working Group and 49 funding partners which include 33 local governments, eight regional road groups, transport groups and five Regional Development Australia committees and the RACQ. IQ-RAP was first conceived after successful Bruce Highway lobbying and after a regional financial sustainability forum in Mount Isa in August 2014.

When I was first elected as Boulia shire mayor, we worked with our outback regional road group and our seven councils to prioritise roads within our region. The advice I was given was that if I listened for the first term I would learn and then work from there. Roads are our bread and butter. Roads are essential to the sustainability of remote and regional councils. Roads are our connectivity, our health and our wellbeing. Everything depends on roads. We prioritise the roads in our own regional roads group.

At the same time, I was on the Townsville and North West RDA board. When talking of Townsville or Boulia or Burketown, what is the common thread of all councils in that region? It is roads. It is our wellbeing; it is all those councils' bread and butter. If the outback regional roads group is lobbying for money for our priority roads, are they connecting with our northern or our southern neighbours? If they do, it becomes a bigger lobbying point. It is giving both federal and state governments that opportunity: 'If we invest in this network in the outback regional roads group, and it is connected with the northern one and the southern one, we are getting value for money.' That is how all of that arose. We could see that the Townsville and North West RDA, representing those councils, could be a part of that, so 33 councils got on board.

It is about prioritising investment in the inland road network. It is a tool that can be used long term. Councils struggle with the system now in place, with the two-year IQ-TRIP and maybe two years. It is bit hard to invest in a \$400,000 piece of yellow machinery under a two-year plan. You need

that long-term idea. When you are trying to encourage people to move out there as a career move, two years of work is pretty short. People will not move and become long-term residents. This situation has presented itself because of those population issues. We need a 10- to 18-year program to provide a network of roads of productivity.

I understand that Brisbane is the heart of Queensland, but if your arteries clog up then slowly things will deteriorate. This is a long-term plan that looks into the future. There is only one processing plant for the beef industry in Queensland that has triple road train access. Every live-export port has triple road train access. The processing plants are at a loss in terms of how to compete with those people.

Since I was elected to council I have heard the state and the LGAQ say that councils need to work cooperatively together. Here are 33 councils working on a system that will give us in some way a sustainable workforce. That then gives us a sustainable revenue flow to keep us there. I know that I will be back before you later as a representative of Boulia Shire Council, but there is some cross-over. We need to consider whether we are looking at sustainability or viability. Are we viable or are we sustainable? That is the question we need to ask ourselves.

Ms Schuntner: We have prepared—and we checked that we could hand something to you—a brief pack to elaborate a bit further. May I hand them out?

CHAIR: Is the committee happy with that? Yes, you may.

Ms Schuntner: Thank you very much. Some of you have seen this presentation but most of you have not. If you would indulge us, we will give you a little more detail of what we are proposing that would be good for the sustainability of not only local governments but also local communities. May I just go through that?

CHAIR: Yes. It will not take too long?

Ms Schuntner: No. I will do the abbreviated version as it can take a long time. I will move through to slide 3. As Rick mentioned, councils are facing budget challenges. Well over 50 per cent—and at times even 80 per cent—of rural and remote council budgets rely on roads. This is a major reason that roads are a major lever for creating that sustainability or long-term planning to get better outcomes.

There is a heavy reliance on those different buckets of money, but most are either competitive, so there is no guarantee, or short term. While the QTRIP program is good in that it is two years confirmed plus two years tentative funding with the TMR program, if you look into its detail you will see that most councils, in rural and remote Queensland especially, may get funding in only one year. There is no guarantee of funding in every year of those four years. As we go through the recently announced QTRIP we see that there is still a challenge in that, of a four-year program, for most councils there may be only one year of funding. That is against the backdrop that Rick mentioned of councils having to do 10-year asset management plans. There is a lot of uncertainty about where that road funding is coming from, yet there is a need to do a 10-year asset management plan that is responsible and sustainable.

Committee members understand our regions and understand that losing staff at a council or contractor level in a community can have devastating flow-on effects of staff leaving, population declines and reductions in teacher numbers and other service positions. We are trying to avoid that downward spiral in our communities as well.

In terms of other challenges and where the councils then take the broader position about looking at how they can build sustainable budgets, at the beginning of this project there was strong discussion about sustainable communities around those councils. In many cases, councils are the largest employer in town. They have a critical, pivotal role. In regional areas, as you all very well know, they provide much more than rates, roads and rubbish. They have a much greater role. They get involved in education, in kindergartens and in a lot of other activities that may not be so necessary for a larger council. We now are looking at those regional challenges, the first and foremost being regional unemployment. Whether you are in Townsville, Mount Isa, Boulia or south-west to Quilpie or north to Burketown, we have extremely high unemployment. The most alarming factor out of that is that youth unemployment in the outback region has just hit 48.4 per cent. While we have some massive problems around council sustainability and ongoing employment as the larger employer in many communities, there is also that greater picture of unemployment.

I do not need to take you through all of the dot points on slide 4 as you know all of the issues we face in terms of regional Queensland. There has been a lot of activity to engage and develop this plan in a proper way. I will move to slide 6. As we mentioned, 33 local governments support this

initiative through funding. That covers 82 per cent of Queensland. When we present this to the Australian government we reinforce that that is 19 per cent of Australia. It is a very large area. In practical terms, it is 20 times the size of Tasmania in this one project. I will not get political, but there are the electorates. On the old map, about 15 electorates are covered by the IQ-RAP region.

Moving to slide 8, the objectives of this project were to address those council, community, sustainability and viability issues. It really was, 'Okay, how do we use significant road funding which is flowing into the state? The QTRIP program over the next four years is \$21 billion, so how do we use those dollars effectively to get better outcomes for our rural and remote communities that rely so heavily on roads?' It is really not just about having a nice road—that is great—but also about how we create ongoing jobs in ongoing work on the roads for local communities. How do we then get the productivity outcomes for our beef exporters to be competitive, for our mining sector to have a chance of reinvigorating itself? In most of our communities there now is a really strong passion to grow tourism as an economic diversifier in regional Queensland.

Slide 9 is about identifying the networks that support all of our rural and remote industries in the council areas we cover. The importance of agriculture, mining and tourism in particular in the inland Queensland area would not surprise anyone. It is about trying to ensure we have efficiencies from port to production site, with the overmass vehicles that come into those industries, and from the production site to ports for export. It is about connecting freight, people, goods and services throughout Queensland. As you will see on slide 10, it is also important for growing tourism. Those tourism routes are not just about Brisbane going out and in but also about connecting with the New South Wales and Victorian markets, which are very important to us as well. I will not take you through all the detail, but this is just a snapshot of what we went through to get some good outcomes.

If we take a network-wide, strategic approach to planning and budgeting—it is world's best practice to take a wide approach and come down to the detail under that—we basically started with a gap analysis. We used experts far smarter than I who work in this area to work out what is the current state of the road and bridge network and what it should be, using standard baseline data from Transport and Main Roads and also their standards. They conducted a gap analysis to determine where we sat. That came back with about 3,000 kilometres of road sections and just over 300 bridges that require updating in the next five, 10 or 15 years. Some are more urgent; others could be done over years.

As Rick mentioned, there was then a strategic, agreed process for prioritising what would happen first. Often in discussions in big meeting halls and tickets on walls and people voting with pens, it is often the loudest voice that wins or it might be based on someone's gut feel for things. This was actually analysed data that came up against the criteria with a very objective process that all 33 local governments agreed on.

On page 12 you will see a network map that basically is substantiated in our bigger document behind this. It basically says on those red lines there are some sections that need more urgent work and if you finish them sooner you will get good bang for buck with your productivity gains, your safety gains and other criteria in terms of economic benefit and productivity and safety. The blue line suggests that you could spread the money out over a longer period and get longer term outcomes in terms of getting fit to purpose, but you do not have to achieve that and finish it all in a rush in five years but spread it out over 15 to 18 years which means councils bring it back to sustainability. Councils would be able to have an ongoing workforce, leases of equipment, investments in quarries for land base and so on for their roads, engagement of contractors and keep those communities ticking along.

Just cutting through, in terms of any analysis, of course, a ballpark figure to understand what we are talking about is a good idea to then take it to the next level. We have analysed that roughly \$277 million a year would achieve this strategic freight network which, I should point out, does not cover every local government road. It is really about determining what are the strategic freight routes and what are the strategic tourism routes. To put that in context, as I said, the IQ-RAP region is roughly 20 times the size of Tasmania. That is about \$194 per square kilometre per annum. It sounds like a big figure, but we are covering a very large area. That is an indicative cost.

This afternoon we are meeting with people from across government—a departmental meeting organised by the Premier and Cabinet office to see how we can take analysis of this forward to get to what are going to be the key economic and productivity outcomes. We are looking forward to that meeting to then break it down and say how we take it forward.

Getting back to councils, page 14 is a critical point. The last thing we want is big fly-in fly-out crews that come up from Sydney, come and do a big project and leave town in a year. This is about ongoing, sustainable jobs. Most of the works in here are quite basic. They are widening pavement

formation, sealing, a lot of culvert work and occasionally a more complicated bridge piece of work, of course, but the majority of work can be done in region by councils and their contractors and local businesses across regional Queensland. That is the goal of it. In fact, we are not recommending you throw in a billion dollars quickly and get it over and done with. That is exactly what we do not want. We want those long-term, sustainable benefits.

In wrapping that up, we believe this does meet the needs of councils going forward in terms of being sustainable. We do believe it helps with achieving Queensland government and Australian government objectives by creating jobs and better productivity outcomes, road safety and catalysing regional economic growth. We know we are on a pathway that is well endorsed by leaders of peak industry bodies. We have put a few down there on page 16. They all say, 'This makes terribly good sense to us. If we are in ag or mining or tourism, this road network is substandard to what we require, but, boy, if we got this right it just helps our sustainability as businesses and our competitiveness.'

In wrapping up, on page 17, as Rick said, this is about creating a planning tool to help inform future road programs, budgets and funding to make sure that we can make longer term plans and programs so that councils can have lines of sight to the funding buckets ahead of them. As mentioned, we are working with government to do economic and social benefit analysis, taking it apart piece by piece to then say, 'How do we budget this into the next round of QTRIP, the next round of federal and state government roads funding programs?' Not only would we like to see it do that with existing programs but also create a longer term pathway so there is vision to a 10-year, 15-year plan that we are aiming for. Even though we know budget cycles cannot lock them in, it is about creating some greater certainty so that councils can make the right investment for their staff, training, equipment and general wellbeing. I will leave it at that and if there are any questions I would be delighted to answer them.

CHAIR: Is this about taking the money that is allocated for roads in this particular group of shires, pooling it and then deciding how that money is spent?

Councillor Britton: It is a tool to look at that long-term productivity. As I said in my opening statement, in our regional roads group we have priority roads. We then go to TMR and say, 'These are our priority roads.' We have our Roads of Regional Significance, which are local roads. Then you have your state network. This is trying to network and connect those up so that if there is an area in the north that connects, when we are going down and lobbying for money, it is a connectivity to go through. It is working with the same bucket of money but long-term prioritising and giving councils that long-term productivity; we know that we are going to have work dribbled through and it will keep our workforce employed. It is a solution. I read through the submissions briefly and they raise a lot of problems with long-term sustainability of local government. There are no solutions in most of those submissions. No-one has come up with the solution. This is looking at using this as a tool as one of those solutions.

CHAIR: Does each local government body retain its own money?

Councillor Britton: Yes.

CHAIR: They retain their own money because they need to for their own sustainability?

Councillor Britton: They have to retain that the money.

CHAIR: The discussion is about, 'You do five kilometres to the north and we'll do five kilometres to the south'?

Councillor Britton: Yes.

Ms Schuntner: I think another part of that is the QTRIP program exists with Transport and Main Roads. They have a partnership, called the Roads Transport Alliance, with all of the councils across the state. Those road groups work very effectively together. We fully support that. In fact, they were the ones who asked us to get going in the first place with this project with all their councils. I think the RRTG structure is already there and they prioritise, as Rick said, on that shorter term basis. What we are simply saying is, 'How do we also do that on the longer term basis with some more certainty?' Transport and Main Roads working with local governments want that to continue—that is fabulous—but how do we make it stretch out further and also use these objective criteria to get the best outcomes? We have given a model that could always be tweaked as necessary, but the model creates greater objectivity to compare apples with apples as far as possible to get the best outcomes in some sort of sequencing so that the money will still flow to the local governments.

Councillor Britton: Everyone is busy in their square. I mention the road from Barcaldine up to Prairie or Torrens Creek. There is 30 kilometres there that is in the Northern Regional Road Group. That is not on their priority list but it is on the priority list of the Outback Regional Road Group. The

amount of product that comes down that road is powering, and now it has come up and is ticked up in those boxes. The Northern Regional Road Group realise now that that is a fair priority road network, but they did not realise what was coming through at that time. Once you talk to each other and you are prioritising, it then assists everyone to be on the same page. It is just getting value for money for the government to invest in those networks. You can justify why you are investing in this regional road group, because it connects with another regional road group prioritisation.

CHAIR: You might have three local governments contributing their road funding money to the same road but in different shires and you get 15 kilometres done in a year instead of five if it was just left to the local governments themselves to decide?

Councillor Britton: Exactly, yes. It is just a tool that can be used. At the moment the government is coming around and doing those road networking plans. Councils have taken ownership of this. They have put skin in the game and we have partnerships to assist in that mechanism.

CHAIR: I think it was called the beef roads project that used to be a pool of money and the local governments decided where it was to be spent and they took it in turns. It is not the same as that, is it?

Councillor Britton: No. That is the principle. They had those beef road programs in the sixties, up to about 1974-75. Then it was stopped. Money went to specific regions to get that product into markets. The game changed. We are talking of sustainability of local governments. The bucket of money is still the same but more and more things are disappearing out of that. We have bikeways now that are disappearing out of road funding money. There are all these little things and it is starving the people who are creating the economy for the state, whether in mining or agriculture or whatever, of that network. From what I have gathered in the last 20 years, if we keep working on the mechanisms that we have in place—the network at the moment is deteriorating—the network will deteriorate more.

CHAIR: Your proposal is quite credible. I understand where you are coming from. Can you tell the committee how that enhances the sustainability of local governments?

Councillor Britton: If we can forward plan, we can tell our workforce that we have those. It then encourages investors. In the Boulia shire we are concentrating on the Donohue Highway into the territory border. We know that, long term, if we can ever get that road sealed through to Alice Springs and the Northern Territory that will then encourage investment in our township because of the flow-through of traffic. If we have local businesses operating in our shire now and we can say, 'In 20, 25 years time this road will be sealed,' they can start investing in more motel rooms. Council then needs to go forward to allocate land for roadhouses and all those other services, but straightaway our rates base, our sustainability and our viability increase. That is the same principle.

Ms LEAHY: I am interested in page 12 of the presentation. How many of those roads are council roads?

Ms Schuntner: The great majority are state controlled roads. There are some national and some local roads. I think from memory there are 21 local roads of regional significance across that network. It is in my larger plan—I can reference the figure exactly in a moment—but certainly they are a smaller component, similar to national roads. The larger component is state controlled roads.

Ms LEAHY: Given that there is that fairly significant state controlled road component in the overall length of roads, and you talked about councils having ongoing workforces—we do not really want the fly-in fly-out contractor type situation, and some of them I know come from interstate as well—what work are you doing to try to ensure councils receive the majority of the contracts from Main Roads, as opposed to Main Roads using RoadTek and outside contractors? If you want to increase the overall pool of money that is available to councils, obviously there have to be some changes with the way the state administers the funds and seeks those contracts.

Councillor Britton: If we know that that work is coming on a state network—and also if you are looking at your local roads of regional significance, which are shire roads—and if we can work through and upskill our workforce to meet all the priorities to work on the state networks, it stands us in good stead. It is a money earner for the shires. Not only is it a money earner in itself; in maintaining our population, our livability, upskilling our workforce and maintaining our plant out of that, that money would be then invested in our local roads. Someone asked the question: what about the local shire roads? If we do not have a state network for that connectivity through to what we are producing or what our local producers are producing, it is no good having a yellow brick road of a local road if we have a dirt track as a state road. One idea was that the state networks are our true connectivity to what we produce and then the others will flow through onto that.

Ms LEAHY: How do councils get a larger share of the bucket that Main Roads has? The bucket does not grow, but how do councils get that larger share on the state roads?

Councillor Britton: Being competitive for those roads. At the moment I suppose in the Boulia shire area, because of our remoteness, we are the preferred tenderer for that network of roadworks.

Ms Schuntner: A lot of councils are already, as Rick said, contracting and doing that work. That question is probably a little bit further ahead of where we are at the moment because we are really still working on the planning stage, but if you look at the example of the Peninsula Development Road in Far North Queensland, there has been a lot of collaboration between federal and state governments on the development of that road but also in the process for contracting, and our RDA colleagues have been very actively involved in working on how we can create new Indigenous business opportunities and employment opportunities around that.

Once the funding is secured in terms of a plan going forward, the funding is then making sure there are processes put in place. What we found is that some new processes and new ways of doing things had to be developed. I think an important part of going forward is determining whether a council already has the skill base and the qualification requirements to be a preferred tenderer or whether we need to work with them or get other parties working with them so they are able to step up and be competitive, because not every council would be at the same stage. Generally speaking, I think, using a broad brush, the more remote we go the more the councils are in the position to get those works and the more you go coastal the more competition there is with the state and private sector.

Councillor Britton: When you look at the vast network from the Boulia shire into Winton shire, there are culverts and things there. That is where RoadTek has those skills, but then when it is just a straight-through road that is where council can step up and do those sections. We have done it in partnership with the sealing of the Boulia-Bedourie road. There were culverts and realignments that had to be done. RoadTek came in and did those and then the council put the road through, so it was a partnership. RoadTek played a very big part in that too. They are based in Winton shire itself so most of the people are local as well. It needs to be a partnership, and that is what we need to work through to make sure that those people get to stay. We do not want RoadTek to disappear. They are a crucial part of that skill base that we need to for road connectivity.

Mrs LAUGA: Do you get value out of the Transport Infrastructure Development Scheme, TIDS, funding that the state government provides, and the Works for Queensland program? Are you using funding from those two programs for your roads?

Councillor Britton: With Works for Queensland our shire has not been putting that money into roads. We have been putting it into things that our community regards as a priority. We are looking at the TIDS money for our roads, but we have not used the Works for Queensland funding. Now that we have the second lot of money we are probably looking at whether we need to do that or whether we have other priorities that our community has at the moment. The Boulia shire has been fortunate to have federal and state money for the Donohue Highway. That has allowed our workforce to be occupied on that road. Some of the TIDS money has gone to our enabling councils, so there is a lot of sharing around. Boulia shire was allocated X amount of money to seal the Boulia to Bedourie road. We had enough jobs in advance that we could keep our workforce, but we allocated it so Diamantina shire could come into Boulia shire and do that. It is about trying to keep everyone within that region employed, regardless of whether it is in your shire or your neighbouring shire.

Mr PERRETT: The member for Warrego covered off on my first query about RoadTek and councils, competitiveness and capacity. I heard Rick's opening statement with regard to opening up these regions for transporting produce, and that is what is out there. There is not much other than beef and mining industries located in these regions. What work has been done to establish a business case to increase the funding that is available? Yes, there is standard funding that comes out of the state and federal governments for these projects, but I think Rick touched on building the highway across the Northern Territory border which then provides additional opportunities. Collectively amongst the 33 councils, and particularly with this group, what work has been done to establish a business case to say to the state and federal governments, 'We need more in this region if you want this area to develop to its full potential.'?

Ms Schuntner: That is a really good point and it is very timely as well. In developing the prioritisation process we did use Transport and Main Roads data. We used other economic data. We used other safety data to work out the prioritisation process, so there is a strong rationale for what is considered a road to be done more urgently than a road to be done drip-feed over many years. We have been engaging in very heavy advocacy in Canberra and Brisbane over the last year and a half

since we launched this, and we have had very strong involvement with industry. Frequently the question would be asked, 'How many jobs will this create here?' or 'What will be the productivity gain here?'

We have basically raised funds from every local government. RACQ, RRTGs and LGA committees have put money into this. Now we are at the stage where we are talking to both the federal and state governments about supporting our work and taking it forward to do a business case over the top of it, because stakeholders have contributed \$400,000 over the last 2½ years and now we are seeking that support. We were delighted to meet with the Premier, Deputy Premier, Treasurer and several ministers a few weeks ago, and we have also had the pleasure of meeting with most of the MPs in the footprint of the IQ app at this stage. Questions keep coming to the surface about how we work with government, so we have asked government to answer those questions. This afternoon we have a meeting organised with the Department of Premier and Cabinet and across departments to bring people together to say, 'We understand this has a broader impact and benefit than just being a Transport and Main Roads budget issue, but how do we get those other good outcomes out of it?'

We are suggesting that we need to do a wider economic and social benefit analysis because in the normal context of roads, sheer numbers of commuters in a capital like Brisbane will sway the numbers every single time. We say that where we have productivity and major exporters there is a major economic business case. How do you build in those other social benefit cases? For example, with Richmond to Julia Creek, if you only have one road to connect everything that road's value is much higher. I am from Brisbane originally. To give you an example, if you are in a suburb of Brisbane you probably have five ways to go around it. You do not have to rely on just one road in an urban setting. We want to value the roads for economic connectivity and the value of productivity gains. How much employment can be generated through construction and maintenance? That is everything from engineering to sealing—the whole supply chain of jobs that rely on road maintenance and construction.

There are also social disadvantages when there is only one road for medical, health, recreational and tourism access. That is a much broader argument in regional Queensland. When we have that meeting this afternoon we will hopefully have some interest from government to help take us forward with that analysis to do a strategic business case over the top of it. It is such a large area—20 times the size of Tasmania. We have had very good meetings with Infrastructure Australia, for example, which has said that it is the right approach. We are doing everything in terms of best practice, taking a strategic network-wide approach and then breaking it down into pieces and coming up with priorities for the next five years. Let us make the business case around them and then keep going.

Following on from discussions with Canberra and key stakeholders and ministers, this will then be fed into the National Freight and Supply Chain Strategy. They are already aware of it. We are sending it down in its current format and now we have a schedule to update it. Two QTRIPs and Northern Australia Beef Roads have been funding since we started this process. You are right in saying that that is the next step, and we want to put the clarity in it to say what you will get out of it directly if you invest so many dollars.

Councillor Britton: That was initially why we raised it. If we are going down and asking government to invest in a network, what does that return? Regardless of where you are and what industry you are in, if you are going to invest in something you want to know what the return is for everyone out of that bucket.

CHAIR: Most importantly, to the local economy.

Mr PERRETT: A press release came out from the Queensland Minister for Agriculture the other day saying that within the beef industry \$5 billion worth of product is produced. Presumably in these areas beef is king. With live export, particularly into the north, and the reliability of transport networks to get those products out, I think there is a very good opportunity for these regions to establish a sound business case as to why there needs to be increased investment into these areas. That is why I mentioned that, because governments like to see a return on investment, particularly into these more remote areas where it can increase the productivity and profitability of these producers, which in turn helps local governments and smaller businesses to establish.

Councillor Britton: We have been operating a beef industry in Boulia shire. I am fifth generation. To give you an idea, there was 77 kilometres of dirt road between Boulia and Winton up until the 1990s. We have been weighing our cattle onto the trucks for probably the last 30 years. Our bullocks used to lose 10 per cent of their gross weight, so if you put them on at 580 kilograms they were coming back weighing in at Winton at 560 to 540. Now that that road has been sealed they are

losing four per cent of their gross weight. Now we can produce more cattle, because as we weigh them onto the truck when we send them down to the processors we can go lower now because we know that we are going to get a better yield on those cattle. Whereas before they had to be cut off at a gross weight because they were going to lose that and then they would not meet the grid system, now we can go down to a lower rate so we can produce more.

Ms Schuntner: A key point of the economic analysis is not only what it does on the ground for local councils, businesses and communities—for example, with beef cattle the productivity to port, productivity to abattoir—but for a lot of Brisbane companies also. What is good for regional Queensland is good for all of Queensland. For example, JBS at Dinmore process 3,350 head of cattle per day which come from regional Queensland, so they are a major employer of 2,000 people in Ipswich plus all the multiplier effects of that employment which rely on that regional Queensland road network. It is the same with the horticultural sector. Inland Queensland west of the divide is very beef driven, and our project scope is west of the Bruce Highway. The coast and hinterland area is predominantly horticulture coming in and out of the Brisbane markets at Rocklea. They move 600,000 tonnes of product per annum worth \$1 billion, and most of that is coming from a strip that relies on either the Bruce Highway or the hinterland highway. One of our suggested road networks is an alternative to the Bruce Highway. You can very quickly see that it is not only in regional Queensland where production is occurring, but major employers in Brisbane rely on that road network. That is part of the economic argument that we need to build up.

Councillor Britton: For the store in Boulia the fruit comes out of Rocky. It is taken into the Rocklea markets, so it is going in and then it is taken back out on that same network. Talking about the beef industry, ABARES states that for every beast there are seven jobs from paddock to plate. That is a large employer right through the chain system.

Mr PERRETT: My other question gets back to councils advocating for state and federal government work. Has there been a shift in government policy around this to RoadTek or other contractors? I will give you a quick example. Before I was elected into this role I was in local government in the Kilkivan Shire Council. We did not deal with the challenges that you have in Western Queensland, but we were highly reliant on Main Roads work. I have observed there has been a shift in policy by high levels of government, particularly state government, to not allocate that funding. While you say that you want to be competitive, a few governments back it used to be allocated directly to local government because of the flow-on benefits, the continuity of work. Have you observed whether there has been a shift in government policy to take this work away and do it either in-house with RoadTek or contractors that come from out of the region?

Councillor Britton: There has been since my third term. There was a shift. RoadTek was being competitive and getting more work all of the time. I think the shift has gone back the other way. The governments have looked at their bottom lines and realised that RoadTek is a little bit top heavy. To give you an idea, a RoadTek camp moved in out on the Bedourie-Boulia road. It was as if you were at the Mirage resort in terms of what they had set up, so there was the cost of establishing that site to put that road in and Boulia shire just sitting there 50 kilometres away. We have to consider what it would have cost them to do that road compared to what Boulia would have been able to deliver it for. There is that shift happening at the moment in our region. I cannot speak of other regions, but there is that shift and I think that is up to our local governments to be united to say, 'We can be competitive.' One idea is that if we work together we can train our workforce to be that and give better delivery for the dollar, because the bucket is not going to get any bigger. It will never increase, so we need to work together to get value for every dollar that comes out of that bucket of money. That was the idea of this, to show that we can deliver value for money.

CHAIR: I think Tony is wanting to know if that is impacting on the ability of local government to be sustainable.

Councillor Britton: Yes, it is. We also realise that there are specialist things that our workforce would not be able to do with culverts and those sorts of things—we understand that, and there needs to be a working partnership in place—but there have been stories around where RoadTek have come in and just totally taken the job when it used to be delivered by council. You only have to have five or six people disappear out of a workforce and it has a massive impact on our community.

Mr CRAWFORD: I am just interested in the numbers, so the \$277 million per annum. Glenys, you said that basically it is the same money; we are just sort of redirecting it. If government were to commit to \$277 million a year over that 18 years, how much extra would they have to find compared to what they are putting in there now?

Ms Schuntner: I wish I could answer that exactly, but I cannot give you a black-and-white answer because the data is not exactly black and white either, to be able to break it down. Arguably at the moment, because of the funding from the federal government on the Northern Australia Roads Programme and Northern Australia Beef Roads Programme, these strategic roads, including the beef roads, are doing very well this year as a result of some extra injections of money. Because they are federal, state and local roads and there are different buckets of money that are coming out all of the time, my instinct says that we are not talking a lot above and beyond—not a large step forward—in terms of what we are currently getting. There are some places in QTRIP, for example, that might only have \$1 million over four years. Obviously they need to go up because you cannot achieve much with that amount. In standard roadworks that is one or two kilometres of roads, so there are places that are definitely having a major underspend.

With IQ-RAP we are trying to say that this is a whole-of-government approach. How do we bring the federal government in to working more in the IQ-RAP patch to develop all of these outcomes that we are talking about? My gut feel is that it would not be a massive leap forward from where we currently are; it is about making sure that these roads are prioritised maybe and in some sort of sequencing to get better outcomes. That will be part of the next piece of work—that is, to break it down and update it based on what has been funded in the last year and a half and then to break those roads into patches to say, 'All right. Where will this funding potentially come from? What buckets are available, federal and state, to take it forward?' So, yes, it is really about getting consistency in line of sight—yes, in some cases more dollars but not necessarily always more dollars.

Mr CRAWFORD: Is your organisation going to try and be the body that helps to advise that process? Are you planning on staying around for the 18 years or is it once government says 'Yes, we'll do this,' you pack up shop and go home?

Ms Schuntner: That is a very good question. The RDA network is under review at the moment and our contract exists until 31 December this year, but I am confident we will be there next year. Really, we are there as facilitators. We were asked by the Regional Roads and Transport Group in a forum in Mount Isa in 2014 to say, 'We think there's merit in working more collaboratively network-wide. RDA, you're the honest brokers. You play a brokerage facilitation role. It would not be appropriate for one council or one RRTG to drive this. Can you help us?' We said, 'We're delighted to, but we operate on a very minimal budget.' Everyone said, 'If we give you some money, can you run it?,' so we have run it on an oily rag, so to speak.

Our goal is that this feeds into tools and processes that continue through the existing functions and structures of the Regional Road and Transport Groups with the councils. RDA has no intent to start building or managing road programs; we are here to drive the facilitation of the planning and the strategy and collaboration around getting better outcomes for regional Queensland, so we will work with all of our stakeholders. Ideally we can step back and say, 'Right, there's a plan that links between the four-year QTRIP and the 15-year State Infrastructure Plan. There's a commitment to understanding roads as economic enablers, achieving all those good things we've talked about before.' We can then say, 'We'll move on to the next thing,' because this is not about the RDA having any role. In fact, financially it is not doing us any real good at all, but if we get good outcomes for regional Queensland we will have done our job.

Mr CRAWFORD: Coming back to what our inquiry is about—that is, the long-term sustainability of local government—you made a comment earlier about not wanting to have large buckets of money in one hit in one spot because that would then bring in the fly-in fly-outers. I think that is a very good point and I think that is probably the biggest pitfall you face. Governments being governments have a habit of saying, 'Here's a couple of hundred million dollars' and dropping it on one spot, which then certainly gets the attention of all of the private contractors. If this is going to work, it needs to be designed so that those local councils and work crews in those councils can be the ones that do the work. Obviously there is no guarantee of that, so that is a real pitfall.

Councillor Britton: That was the initial idea of it—that is, to keep that long-term sustainability of that workforce within the local regions of the local councils.

Ms Schuntner: The example I would give, if I were to pluck one, as a longer term funding proposal in here is somewhere like the Savannah Way from Cairns across the north through very remote communities and Indigenous communities like Doomadgee out to the Northern Territory and beyond. Our recommendation is to have ongoing works and programs along there for 15 years or even longer and there would be benefits that can accrue through local employment creation. If I have heard it once I have heard it a hundred times in some of these areas: 'We're training, training, training but we don't have any jobs at the end of the pipeline.' They love the idea that there is some pathway to create the jobs and open up the tourism opportunities by sealing the road to attract more tourism.

Just as an example, the other day I heard that outback Queensland is currently getting only three per cent of the share of the tourism market in Queensland. It should not be hard to make an impact on that, and roads will be a critical part of that. If we can improve the road quality for people so they want to take their Winnebagos and their caravans over these roads, we can very easily make an impact there as well to help diversify the economy and keep those jobs going.

Mr CRAWFORD: I agree with that point. I come from Cairns and obviously there is a lot of tourism up there. One of the big factors that we have up there, particularly on the Tablelands and coming into the cape, is the dirt roads. If you hire a campervan or a car, you find that in the fine print it says, 'You will not drive this onto a gravel road.' We often see that where the bitumen road stops and the gravel road starts is where all of the rental cars and campervans turn around.

Ms Schuntner: Yes.

Mr CRAWFORD: That is a real no-brainer for some of those small towns.

CHAIR: I might just finish off with one question or maybe ask for a better definition or maybe just an explanation. I just ask you to simplify this so that everybody has a good understanding of how it all works, and I refer to people who want to read through the *Hansard*. I want to know if you could explain more about the use of the multicriteria analysis to determine priorities for the maintenance of the road network. I know that we have touched on it, but could you just explain it in simple terms?

Ms Schuntner: Certainly. In the full IQ-RAP document, which is found on our rdanwq.org.au website, the full plan is there and it basically takes you through all of the details of that, so that is a reference for that going forward with further detail. In principle, basically after the gap analysis is done and asking, 'What roads and bridges require upgrade, based on current demand?', then the consultants use the key criteria that were decided by the representative mayors and industry people at meetings in both Longreach and Mount Isa where it was workshoped. In the plan we talk about the economic criteria that were used, based on Transport and Main Roads data in terms of truck movements, vehicle movements, safety information or whether a route is a main tourism route—and they use a number of factors which are elaborated on in the full plan. Then they use those with a weighting against each of those.

In our plan we have basically agreed on a weighting that is used to prioritise the roads, but for clarity and transparency we have also put in the document how that would affect the outcomes if we changed those weightings. Basically we used standard Transport and Main Roads type data and analysis tools, but we added and broadened them a bit to get that broader economic social analysis into the work. When they used those criteria, weighted them and then did these scoring factors, the plan itself talked about what data was available against those factors that we were trying to measure. One of the challenges was finding data that was consistently available right across the state in the same format to make sure we are comparing apples with apples.

CHAIR: Thank you very much. Sorry, Rick, but that brings it to an end.

Councillor Britton: Thank you very much for the opportunity.

CHAIR: Thank you very much for your input. It has been a pleasure to talk to you.

BARKE, Mr Craig, Chief Executive Officer, Scenic Rim Regional Council

O’CARROLL, Ms Nadia, Deputy Mayor, Scenic Rim Regional Council

STIDWORTHY, Ms Kelly, Chief Finance Officer, Scenic Rim Regional Council

CHAIR: I welcome representatives from the Scenic Rim Regional Council. Thank you for making the trip down. I invite you to make an opening statement.

Councillor O’Carroll: Thank you for the invitation to attend this hearing and for giving us the opportunity to make a presentation this morning. The Scenic Rim Regional Council was formed in 2008 in a challenging amalgamation which was predicted to create a financially weak council. The new council made an early and prudent decision to commission an independent review of its financial sustainability and a commitment to the necessary financial discipline to adhere to the strategy required to improve its financial position and to achieve a financially sustainable future. The Scenic Rim Regional Council also made an early commitment to community engagement and future planning by developing its Community Plan 2011-2026 in a process of extensive public consultation which created a document that sets out a clear vision for the region which guides council’s plans, policies, priorities, outcomes and strategies.

In some respects there are two elements in an analysis of the long-term financial sustainability of local government in Queensland. Firstly, there is the capacity, competency and capability of councils with regard to managing their financial sustainability and also their ability to be efficient and innovative and to maximise productivity. There are many components to achieving and maintaining financial sustainability: planning policies and strategies through forecasting and modelling; implementing best practice systems and processes to efficiently maintain, value and manage assets; reviewing and monitoring performance through accurate data reports, relevant ratios, KPIs and targets; and the agility and flexibility to make decisions that are informed by these evaluations.

While improvements to all these skill sets are beneficial to both the individual councils and to the sector as a whole, current identified deficiencies in the financial management of councils are not the root cause of many of the potential problems, issues and challenges which have a negative impact upon the long-term financial sustainability of local government. There are a number of risks and challenges to long-term financial sustainability. In general, there are elements such as climate change, natural disasters and extreme weather events. There are economic developments such as the rise of the unregulated uber economy. For local government there is also the issue of vertical fiscal imbalance; grant programs which are tied funding and focus on new rather than existing assets; cost shifting; policy and funding changes from state and federal governments; ageing infrastructure and infrastructure backlog; increased public expectation; population growth and management of growth cycles; constraints on council revenue, with the majority of funding through rates, which are a property based tax; and only limited scope and capacity to imposing user-pays fees.

In relation to our own council—our challenges—our landscape is crisscrossed by numerous waterways, so we have a significant number of bridges and causeways. We also support an extensive road network that services a decentralised population of approximately 40,000 as well as meeting the demands of industry, agriculture and tourism. There are three major centres to service and also a number of villages and settlements scattered throughout the region. It is a continuing challenge to deliver the vision and outcomes of the community plan which require investing in social, cultural, environmental and recreational assets, services, facilities, economic development and planning to proactively adapt to the transformation of a growing and dynamic region while preserving the natural environment, rural lifestyle, diversity, culture and identity that the community values.

There may not be a single solution to all challenges to the long-term financial sustainability of local government. However, the most obvious risk mitigation can be provided by a more holistic and cooperative approach from federal and state governments to recognise the need to address the current vertical fiscal imbalance and to consider the impacts of funding and policy changes such as the FAGs indexation freeze, infrastructure charges capping through fair infrastructure charges and cost shifting. The benefits of a more cooperative approach extends beyond improving the financial prospects of local government. Public perception of the responsibilities and authority of the three tiers of government is often poorly understood. A person living in a well serviced area that has a sense of place, modern infrastructure and services reflects well on all three tiers of government. Conversely, failures and deficiency at the grassroots level may reflect poorly on all levels of government.

CHAIR: Thank you very much. I take you back to your first paragraph where you talked about a financially weak council. What were the words you used there?

Councillor O'Carroll: Yes. It was a prediction that was made that the amalgamation was going to create a financially weak council simply because the way in which the council was amalgamated reduced the population and at the same time it had quite a big footprint to look after. There was the prediction that the council had every likelihood of the prospect of being financially weak, and that was one of the good decisions that was made early. The new council recognised that there was this predisposition towards being financially weak and they chose to employ an external consultant which gave them both the expertise and the objectivity to make certain plans and strategies and also to warn them of the likelihood that if they did not take fairly disciplined action there was a possibility that the council would have a weak financial position. It is a tribute to the three previous councils and the efforts of the staff and the councillors and the previous mayor as well that they very much stuck to the guidance that was given in the external report. The other thing that happened as well which I think is also very prudent is that these reports have been updated. We do employ external consultants to basically benchmark where we are going and, consequently, we have improved our financial position.

CHAIR: You seem to have done very well. I note that the Queensland Audit Office says that you are an overall low relative risk of financial sustainability concerns, so you have certainly moved on from where you were.

Councillor O'Carroll: Yes.

CHAIR: Were you a part of the council at that particular time?

Councillor O'Carroll: Not the initial council, no.

CHAIR: Was the CEO?

Mr Barke: I was.

CHAIR: We would be interested in what you did to make sure you were on the right track, because this is what we are talking about to make sure that councils remain sustainable. From what we are hearing, you seem to have done a pretty good job.

Mr Barke: Thank you. Would you like me to make my opening statement?

CHAIR: Did you have one to make too?

Mr Barke: We each have a short opening statement, if that is okay.

CHAIR: Okay. Go for it.

Mr Barke: Thank you, Chair. I am pleased to be here as well today representing council. I believe my council does have a story to tell in relation to its sustainability challenges and the actions that we have taken since 2008 which have resulted in a sustainable organisation. As the Deputy Mayor has outlined, my council was formed in 2008 from an amalgamation of the old Boonah shire council, the southern part of the Beaudesert shire council and part of the Ipswich City Council. Scenic Rim Regional Council was initially rated as a potentially weak council. It had a negative operating result. It had a large backlog of aged capital infrastructure, particularly in roads and bridges, and these all presented challenges to us that needed to be resolved and it was a very challenging time.

Firstly, let me say that I believe financial sustainability is a somewhat nebulous concept in the sense that it is very difficult to define absolutely and it is even more difficult to determine the point at which you arrive at or depart from, as the case may be. It is better I believe to think of this concept as a continuum. There are clearly organisations that are unsustainable and there are clearly ones that are sustainable and then there is a grey area in-between where you are somewhere but between the ends of the continuum.

As the Deputy Mayor has outlined, Scenic Rim recognised its sustainability challenges early and it set about managing them. We spent considerable effort in the 2008-09 year analysing our financial position, understanding the condition of our assets, looking at our staff skills mix plus a range of other factors and we prepared a long-term 10-year financial model which council adopted. The outcomes of this process required the organisation to manage its costs downwards over time. We determined that we would attempt to cap our operating costs per capita over a 10-year period, and we have essentially achieved that outcome. We also determined that we needed to decrease our FTE count—our staff count—which we did largely using natural attrition. We also determined that we needed to see revenue increases marginally in excess of CPI. This strategy was not difficult to develop.

The difficulty of course was delivering it. This required consistency in decision-making over an extended period of time. In fact, it has taken consistency over a decade almost to deliver it. The point here is that financial strategies, like any long-term plan, require discipline to adhere to or they quickly

gather dust on a shelf. The related and opposing key point is that improving the sustainability of a council is often a long-term process—it does not happen overnight—and it requires a committed councillor team and an equally committed executive team.

We do operate, however, in an environment where we can largely resolve our revenue budgets. We largely can control our expenditure budgets, so in many respects there is no reason sustainability cannot be achieved for most councils providing they have a reasonable population basis and access to skilled staff to assist with that process. What is required, however, is the understanding of this process and commitment to the planning and the task at hand. It must be said that the political cycle itself can work against the long-term financial sustainability of local authorities. The desire to limit, cap or reduce rates, especially when this is done over multiple financial years, has a compounding effect on council budgets in their out years. This ultimately reduces their sustainability significantly. Scenic Rim Regional Council has not had this experience, with successive councils—three now since 2008—being strongly supportive of our long-term financial modelling processes. This has been critical to our success and I wish to publicly acknowledge this commitment, especially the Deputy Mayor, Nadia O’Carroll, who has been our long-term chair of council’s finance committee, a position which she has only recently vacated when she was appointed as Deputy Mayor.

Financial sustainability and strong asset management processes must coexist. Asset management failures today will have significant ongoing impacts on council financial sustainability metrics. I strongly support the use of KPI sustainability indicators which are in use in Queensland and the move to publish and audit these in annual reports is a positive one. This has served to sharpen the focus on key financial matters and the decision points which are relevant to sustainability. My council monitors these indicators routinely and this has greatly assisted us in our journey. I also wish to acknowledge the LGAQ’s work on sustainability benchmarking in Queensland local governments and their many cost reduction initiatives and specialist advice.

Finally, I wish to comment on skills gaps in the sectors which I believe have contributed at times to poorer financial management processes than what are ideal. We are all aware of small regional based councils which struggle to attract and afford sufficient talent to support their finance and asset management processes. Scenic Rim Regional Council, being located in SEQ, has not had this issue, but I can imagine the task for more remote councils is extremely daunting when attempting to manage these issues.

CHAIR: Very good. I ask you to identify three or four strong points that you introduced that has made the difference to the way the council operates. They did not just have to make a difference, because you originally started off with not a lot of money. You have been able to get off to a good start and maintain that momentum.

Mr Barke: If you look at the sustainability indicators that are audited and published, there are three criteria that determine whether a council is sustainable. One is that you have sufficient cash to cover your costs, that you have sufficient revenue to cover your operating expenses and that you can generate sufficient cash to fund your capital replacement program. I do not think that the equation is any more difficult than that. What is difficult is getting to the point where you understand those matters intimately and you have a long-term strategy to address them.

CHAIR: How important is having the skills and expertise in your staff but also in your elected councillors?

Mr Barke: They need to coexist because ultimately the council has carriage of the strategies of the organisation, so the council must understand these matters and be prepared to implement them because sometimes they come with some pain. The reality for us has been that we have aggressively managed our costs down. We are operating now spending the same money per capita as we were nearly a decade ago, but what we have achieved by doing that is we have nearly trebled the capital expenditure that we spend per capita in the region. We are directing costs away from running the business to delivering services for the community, and we had to do that because we had an aged infrastructure portfolio which required very significant ongoing action. For example, in our bridges program in 2008 we had 101 timber bridges with 70 per cent of them in the last 10 years of their life and we had a historical spend replacing one per year. That was completely unsustainable. The council recognised this. They increased the funding to bridges by 450 per cent and we have held it at that level for a decade. The outcome is now that we are probably about nine or 10 years away from resolving the issue and we will get there, but the commitment must be long-term. You do not solve these issues in one or two years; you must see these as long-term issues and they require long-term commitment, and that must be political and it must be administrative.

CHAIR: Excellent.

Mr PERRETT: What is your annual budget?

Mr Barke: The annual budget we adopted this year includes a large amount of money for flood recovery work as we were severely impacted by Tropical Cyclone Debbie. That was the sixth disaster declaration we have had since 2010. It is about \$145 million.

CHAIR: Sorry, Kelly, I was not aware that you had an opening statement to make. Do you still want to make that? I apologise sincerely and I apologise to you, Tony, for interrupting.

Ms Stidworthy: I am happy to allow time for questions. I can make it if we have time as we go through.

Mr PERRETT: Kelly might jump in anyway.

Ms Stidworthy: I might cover it in the answers.

Mr PERRETT: Craig, you mentioned limiting or capping rates and that council does not have a policy to do that. I assume that the way you operate is in a fully professional manner in that you have an informed budget process rather than a political process that says, 'We are going to deliver,' for argument's sake, 'a 1.5 per cent rate increase,' because that is politically convenient but may leave legacies for future councils. Am I correct in assessing that you do have a very open and informed process within your budget, based on the work you have done over the last eight to 10 years?

Mr Barke: I am happy to answer that. The deputy mayor may wish to make comments, of course. My point is that, because rates compound—for example, a one per cent rate increase for my council is about \$450,000—if you forgo a one per cent rate increase this year you lose \$450,000 out of your revenue budget this year but you lose it every year. It is the compounding effect, which I do not think is really well understood. The point I am trying to make is that occasionally—it has not been the case in my council—the political process leading into elections where zero rate rises may be applied in some situations has very significant effects across the 10-year model.

Councillor O'Carroll: I believe that one of the reasons the council has been successful in the way it has is that we have more or less a partnership arrangement between the administrative and the political parts of our council. We are all working for the same organisation. Consequently, I think that, when everybody sits around the table and discusses the way forward in terms of rate rises and rates and charges, we look at it in terms of what is needed to be done for the organisation. We are very fortunate in that we do have staff of sufficient quality who are not only able to do the analysis required but also extremely good at communicating.

We have an extremely thorough process that we go through at budget time. That is not a time we look forward to but, nevertheless, it is very thorough and we basically go almost line by line. We have a proposal put in front of us in relation to the various increases in charges and rating categories et cetera, and we basically go through it. We go through and we review it and we debate and certainly make Kelly work very hard during this process, and Craig as well. We reach an end point where there is consensus. There is not total agreement, often, but there is consensus on this being the way forward. So far I think it has produced good results because, as Craig has said and as our results indicate, we have moved from potentially a weak position to now a much more favourable position. As Craig also says, it does require a long-term commitment to not look at just the short-term political strategies of a low rate rise but look to the long-term health of the organisation.

Mr PERRETT: I want to shift to an area that is out of your control. Obviously you are very prudent in respect of the processes you put in place and the internal control mechanisms that can control what you do. They have been raised in your submission. I want to get to the vertical fiscal imbalance, because nearly every council is raising this in its submission. Before that, I want to talk about cost shifting from other levels of government, which is something you have difficulty controlling, and the increasing cost of compliance. I think you have given the example that recent changes to traffic control are going to impose a \$350,000 additional cost on your council. This gets to the heart of sustainability of local government: while you can control certain things, it would appear that there are other things, and you have noted these in your submission. Could you expand on, firstly, that cost shifting from other levels of government and then the increasing cost of compliance that is imposed?

Ms Stidworthy: The cost shifting from other levels of government I suppose can happen in a range of ways. At Scenic Rim we note a couple of recent examples where we have had the responsibility shift from state government through to local government to handle. Monitoring fruit bat activity is one example. We have a number of colonies in the region and, as a result of having those responsibilities shifted from state to local government to manage—and with local government, of course, being very close to the community—there is the high level of expectation that we will proactively manage those types of issues. Just as an example, implementing the activity to manage

the fruit bats and their colonies has cost council in the order of \$50,000 to \$200,000 a year, depending on what needs to be undertaken as a result. Obviously the colonies move. Therefore, in some years we might have to do a lot of response to those issues and in other years we may not have to do too much.

Another one that we have recently received responsibility for is the monitoring of asbestos in the region. If there is a compliance issue around asbestos, renovation, dumping and those sorts of things—it used to be a state government responsibility—it is now a local government responsibility. The order of costs over the long term as to what that will involve is a bit hard to say at this stage because it is early days, but we do expect those issues to compound in the future and start to require response from us. Currently we have allocated probably less than \$20,000 a year towards that activity, but we think that will grow with the nature of property changing, being renovated and those sorts of issues.

In relation to the increase in cost of compliance, traffic control is the key one that has happened recently. There have been changes in the standard of traffic control that needs to be applied by council. Those standards did change in the last 12 months. We now have to respond at a much higher level in relation to closing roads in particular. That has a fairly significant impact because, obviously, roadwork is a day-to-day activity. Every time we undertake traffic control it is an increased cost on those day-to-day activities as well as the events that council holds—closing roads for events—and also the impact on not-for-profit entities within the community that do those sorts of things. As a practical example, we hold events in the Boonah township. They often close the road for those types of events. Where previously we could get volunteer agencies to come in and do a lot of that work, now we are looking at a cost anywhere up to around \$5,000 to prepare a traffic plan and make sure the road is closed by qualified staff. Those issues have been incorporated into our budget and we estimate that at about \$350,000 ongoing. There are probably some additional costs in relation to the not-for-profit agencies in the region potentially coming to council and asking for some level of assistance around that as well which we will probably need to respond to.

Mr PERRETT: As I mentioned earlier, a lot of other councils seem to be raising vertical fiscal imbalance with respect to the collection of taxes, tax revenue—federal, state and local government break-up. You have put it very succinctly in respect of local government only collecting 3.4 per cent of all local government taxes but being responsible for 36 per cent of non-financial assets held by all spheres of government. I think you go on to say that the smaller councils with low population densities and large service areas bear the brunt of this impact. I would like to hear about that and your thoughts in and around the process to perhaps change that. Obviously that could be around COAG at the federal government level where the state is involved, but it seems to be coming up regularly in what we are hearing on this committee.

Ms Stidworthy: In terms of the level of taxation revenue that is collected, whilst there are some other grants and contributions that become available from state and federal government to local government, they provide only quite a small increase when you compare that to total local government revenues. Even the additional assistance that is provided still really does not boost that figure, which is currently around 3.6 per cent—slightly higher than the figure we had in the submission, not up by very much at all. To manage an asset base that is 36 per cent of the total Australian government asset base is quite a significant challenge, obviously, with that level of resources.

I know that you will have a number of groups presenting to this committee around regional collaborations and those sorts of things. They probably have the best answers as to how additional funding might be able to be provided for the types of works that need to be undertaken in remote regions. Certainly we would like to see more funds available around the asset replacement and renewal area. Potentially there could be the ability to put additional funding into existing programs. I know that there was mention in the QAO report that other levels of government are driving more independence into local government, but I think that vertical fiscal imbalance issue is quite significant. It is going to be very difficult for local governments to generate those sorts of funds from their communities out of their rate bases and those sorts of things.

Councillor O'Carroll: That certainly is a major issue. If you just had to have one item or one issue it probably would be the most important because of the magnitude of it. Also, for example, a lot of the grants are contestable and are tied, so in some respects it is a contingency to try to predict whether you are going to be successful or not in terms of just the general purpose grants, the financial assistance grants. Certainly we as a council have struggled a bit when we compare the results of the general purpose element of the FAGs grant. I know that the formula is quite a complex one and is based on the concept of horizontal fiscal equalisation, but when we look at comparisons with other

similar councils we find that, on a per capita basis, we are paid only quite a small proportion of what these other ones are. We are not an urban council that is on the minimum, but when we look at the rural areas—in some cases very close to us—we find that we are quite disadvantaged by the distribution of the general purpose element.

Mr Barke: I think this is a key issue for local governments in Australia in the sense that we are the custodians of very significant community assets and we have very limited revenue sources. When there are grants available to support local governments in the reconstruction or construction of assets, typically they fund the capital component; they do not fund the ongoing opex component. That is a major issue that needs to be understood by all sectors of government and particularly the decision-makers in the local councils. It is very easy to take on a large capital grant to deliver a new swimming pool or library and not fully appreciate the ongoing opex costs and the effects on sustainability. We are very conscious of how we make capital investment decisions around assets like that.

Mrs LAUGA: Thank you for attending the inquiry this morning, which also touches on local government procurement. As a council, do you have any experience with Local Buy for the procurement of local government works, services and contracts? Could you give me a bit of a run-down on the processes that you use?

Ms Stidworthy: Certainly. We access Local Buy quite regularly. Local Buy purchases would form a reasonably significant amount of our annual spend on everything from being part of the consortium of councils where we have electricity contracts on a joint basis to achieve some savings, because we get better economies of scale if we can join up with councils such as the Gold Coast and Logan, through to utilising road construction contracts as part of our annual program for, say, resealing and those sorts of things. We use it quite regularly.

We use Local Buy on both a quotation basis and incorporating tender processes, as well. We have close contact with Local Buy staff in relation to obtaining assistance with procurement advice, programs and those sorts of things as well. We have also taken advantage of the systems that Local Buy offers, so we use their electronic tendering system and we have implemented the electronic quotation system that they promoted as part of their business quite recently, as a lot of other local governments are doing.

We find the Local Buy process creates a fairly significant time saving for us. The panels are prequalified, so we do not need to undertake a new tender process in order to get access to suppliers that can do the type of work that we need. We find that the processes that we are provided with or the assistance that we are provided with by Local Buy to access those panels and obtain information from suppliers about pricing for work that we want them to undertake is very easy and very straightforward. The system works really well. It is a very robust system, I think. The panels are quite good for what we like to use. They are in constant contact with us about what panels we would like to see and whether we would like to see suppliers that we might use in other areas on certain panels, so it is easier for us in the procurement process. From a regional council perspective, it is a very valuable resource for our procurement options.

Mrs LAUGA: Local Buy has preferred supplier panels. Does council also have their own panels, as well, or do you just use Local Buy's?

Ms Stidworthy: Yes, we have a number of preferred supplier panels. The main ones that we hold would be our external plant hire. We hire in, on a daily basis, equipment from local contractors and sometimes the local contractors themselves, depending on whether we need dry hire plant or plant with operators. We have panels for those types of arrangements. They are predominantly local Scenic Rim based panels. It is not a requirement, but generally speaking we want contractors that are located close to the location that we need the work performed.

We also have panels within our property and operations area for things such as electrical services, painting, building services and those sorts of things. If we need to do some small renovation work or things like that, we have a prequalified set of suppliers that we can access for that. Again, they are usually based on local suppliers from the region, because it is more affordable and efficient for us to have local people who can basically get there the same day and those sorts of things.

Mrs LAUGA: How does council determine whether you use one of your own panels to source suppliers versus one of the Local Buy panels?

Ms Stidworthy: There is a fairly clear delineation. The Local Buy panels are generally around suppliers with largely capacity in some respects. We would go to those sorts of panels looking for suppliers who can undertake road construction works and those sorts of things. We would not have

suppliers like that on our panels. Our suppliers generally have a much smaller capacity, because they are regionally based, usually. We go to them for more of the day-to-day services that we need. Whenever we need something fixed or we need to hire some equipment as part of a job, we use those panels. It is quite clear for us. Obviously, for Local Buy as well, we use a lot of their panels around things such as IT services and consultancy services, because those things are not usually available in our region.

Mr CRAWFORD: There are a couple of things that I want to cover. Do you have divisions in your council?

Councillor O'Carroll: We do.

Mr CRAWFORD: I was interested in some of the commentary about the political cycle and how you have been able to keep that under wraps. Certainly we have heard from other councils over the past day or so, and even weeks ago as we have travelled around, that have raised a problem that, when the political side of council is under a lot of pressure for re-election, as we are here, as well, there is a battle between having—and we have used the phrase—'shiny new things' as opposed to things such as sewage treatment plants which, whilst they are important critical infrastructure, do not necessarily buy votes. How has your council managed to keep that in line, because others are not saying the same thing?

Councillor O'Carroll: Part of the reason is because it is a relatively small council. Possibly when you have just a small council, people work together and perhaps get to know each other a bit more and we have developed a working relationship. We all have our differences, but we seem to have managed to work out quite a good working relationship. The other thing, too, is that we have a lot of confidence in the administrative staff.

Certainly, whenever something happens where there is a decision to be made, we normally have a fairly comprehensive report that explains the reasons and the recommendations. I think that makes a big difference in the sense that when someone explains something to you and you really think about it in the context of the wellbeing of the organisation and the constituents, and if you have that first and foremost in your decision-making, possibly some of these other priorities do tend to resolve themselves.

Mr CRAWFORD: Do you do any consultation in relation to your budgets, leading up to budget time?

Councillor O'Carroll: Not as such. We do have a very transparent reporting system. Our monthly reports are quite comprehensive. Included in that, when we do our budget review, once again a report is published. We have taken the approach that there is more to be gained from public engagement and consultation in a more strategic way. For example, we have our community plan, which was prepared after extensive public consultation. That is a very strategic document. We are actually having that reviewed currently. That will be done with public consultation.

Sometimes when we are engaging in a new strategy, we do go through extensive public consultation. Quite recently we had some major projects and we did go through a series of public consultation there to see whether or not people wanted it or whether it was what they wanted. We got various responses. That tends to guide us in relation to making those strategic decisions or sometimes a decision about a potential large project.

I think there are inherent problems when you go out to consultation with an individual budget, which is that you automatically have financial self-interest and possibly special focus groups, in terms of service providing and that sort of thing. Some of the comments that you would get may represent the self-interest of a particular group which may see a financial burden or a loss of service as a result of that budget. I think it is quite hard to avoid that.

Therefore, we have tended to go for overarching strategic community consultation, which then guides our budget decision. Providing we have the systems in place to make the most prudent financial decisions, we can see that if we do that and we are working towards those strategic priorities that the public has told us they want, we tend to think of that as perhaps a more robust process.

Mr CRAWFORD: Yesterday, the Southern Downs council told us that they believe that there should be better opportunity for government department intervention if councils are having financial problems or if there are budgeting problems and those sorts of things. Do you agree with their statement?

Councillor O'Carroll: I am not aware of exactly the context in which they were making that comment. One of the things that has come to the fore in this report and this review is that there are councils that feel a bit out of their depth in terms of their skills and capacity in relation to financial planning. There are some solutions in relation to perhaps having not so much auditors but people going in to advise them in that regard and help them, so that they can avoid those problems before they happen. I think that is a very good idea. Certainly the remote communities do have problems keeping, attracting and hiring staff who may have the competency to run a modern council.

I think that the range of KPIs we have and the audit process should perhaps help people and help councils to identify if they are heading into trouble. Of course, you are much better off with an early intervention rather than waiting until you have a very dire financial situation where you then have to take the step of having a third party such as a state government come in and intervene. Certainly, if councils had the opportunity to call for help when they realise that they are in trouble, providing they have the systems in place to realise that they are in trouble, that is probably a better outcome rather than a situation where the state government has to take control. Obviously they may reach a point where, for the best interests of the council and the region, that has to happen, but hopefully the councils can see that they are getting into trouble and can call for help before that happens. Kelly and Craig may have an opinion on this as well.

Mr Barke: Certainly I think that there does come a point in time when state intervention may be required. My view is that that should be based around a KPI analysis of a council's financial position. Those numbers are now audited, so they are reliable. If you were to set trigger points on some of those, I do not think that would be unreasonable.

Mr CRAWFORD: Another thing that Southern Downs said is that, instead of government doing an audit at the back end of a financial year or whatever, perhaps there could be a model where the department viewed your prospective budgets prior to them going to council. The example they used was in a case where you had a council that opted to build a lot of infrastructure but there were no operational expenses or no allocation for that moving forward. In that case, the department would be able to say to council, 'You've just budgeted to spend millions of dollars to build all these great things, but you have no money to provide ongoing maintenance for them'. They supported the department being involved in seeing the budgets as you were preparing them, before they went to council. What would you say about that?

Councillor O'Carroll: I think the process would be quite laborious. Also, it basically brings a third party into the process before it reaches its logical conclusion. I really think that if a council was going down that road, you would hope that they would realise the error of their ways before that situation occurred. I am not quite sure how it would be incorporated within a council without causing a degree of rift between administrative staff and the council. I do not know exactly how you would incorporate it. I think if you actually had that level of dysfunction in the ability of council to appreciate the financial difficulties it was creating, that would definitely be of concern. Once again, I do not know what Craig's and Kelly's opinions are.

Mr Barke: My short answer is that I do not believe that is necessary in the vast majority of cases. As I said earlier, there may be councils which might appear on a watch list that have KPIs outside of a given range where that may be appropriate, but I do not think it is required or needed on a holistic basis for the state. I think that would present administrative challenges and burdens which would delay the process of councils preparing and adopting their budgets, and I think in most cases it is unnecessary.

Mr CRAWFORD: Yesterday we had evidence from the resource industry and the Property Council about differential rating of councils. Do you have any resource projects in the Scenic Rim?

Mr Barke: It depends on how you define 'resource'. We do not have any sort of mining activity, if that is what you mean. We do have quite a number of large quarries which in some ways are resource activities. I would not consider we are a resource based council.

Mr CRAWFORD: Those quarries are not rated particularly differently to anybody else?

Mr Barke: Yes, we have a differential category for quarries.

Mr CRAWFORD: We also had evidence from the Property Council saying similar things about differential ratings between different buildings and they felt that it was unfair. Do you have any buildings in the Scenic Rim that would fall under that area, be they shopping centres and the like?

Mr Barke: For sure. We are no different from many other councils in Queensland in that we have a developed differential rating structure, which we have done in consultation with the council as well as independent advice. The differential rating process is there in legislation for a good reason, which is to recognise that there are some businesses and industries which have very significant

impacts on local infrastructure. A differential rate is really the only way you can recover those costs associated with providing services to those industries. Yes, we do have those structures in place and we support them.

Mr CRAWFORD: The Property Council was saying that they believe the solution is the Victorian government solution. Are you aware of that? They introduced a guideline for differential rating in 2013 which they believe provides better consistency. You are not aware of that guideline?

Mr Barke: I am not familiar with that.

Ms Stidworthy: No, but they do use capital improved value. They have a totally different valuation base to use for rating as well. I think that would make a significant difference to the way you would approach rating, if that were the case.

Mr CRAWFORD: I will not push any further on that one if you are not aware of it.

Ms LEAHY: I note in the submission from the Scenic Rim Regional Council a reference to the financial assistance grants. It states, 'In the 2012-14 budget council has had grant funding of over \$1 million reduced due to the reduction in the general purpose financial assistance grant allocation.' I am assuming that is because of the freeze on the financial assistance grants. Also it goes on to say, 'The withdrawal or reduction in capital grants and subsidies from the Queensland government.' Can you advise the committee of the withdrawal and reduction of those capital grants from the Queensland government?

Ms Stidworthy: I am happy to provide any specifics and get back to you later, but generally speaking the \$1 million reduction was a combination of a reduction in financial assistance grant funding due to the fact that we understand there was some additional funding made available through that process to councils that had been through the amalgamation process. That funding stayed at that level for a couple of years and dropped back. It was a fairly significant drop of several hundred thousand dollars in council's general purpose financial assistance grant as a result of that process. Within that same period, there was also a reduction of some state government grant funding. The one that comes to mind is the Transport Infrastructure Development Scheme, but there could be a couple of others. I would have to go back and check the specifics.

Due to the timing of that, it was basically all in one period. It meant that we had to make some adjustments to next year's budget and long-term forecasts to take account of those impacts to try to ensure that we stayed within the ranges of the key financial sustainability indicators as a result. We have noticed that the level of grants and subsidies from the state and federal governments have improved since that time. Obviously post-GFC things were difficult and we saw the drop-back of many subsidies and grants programs. The situation has improved. We have particularly benefitted from the federal government's Bridges Renewal Program. That has been a very valuable program for our council to access and we have been successful in obtaining funding from there. One point we would make, as would many other councils, is that obviously having some level of consistency in the availability of grant funding to be able to base your forecasts on would be good. At the moment we only count on the fact that we may have the financial assistance grant into the future and a conservative level of capital grant funding.

CHAIR: I notice in your submission the statement, 'In addressing the asset management challenge council has formed an asset management steering committee.' How long has that committee been operating?

Ms Stidworthy: The committee has been operating for about two years.

CHAIR: Has that committee identified the necessity to, if possible, put funds aside for key asset replacement, and are you doing that?

Ms Stidworthy: That is a good question. The committee has recognised that we are likely to face challenges in relation to funding all of our asset management plans. We are on a bit of a journey at the moment. We have an improvement program in place and are aiming to be at a core level of asset management maturity at the end of 2018, but we do have reasonably good asset management plans for our major asset classes, so roads and bridges, because they form more than 80 per cent of our total asset base in terms of value. We do not have reserves as such within council. Basically, we budget on the fact that we will address our infrastructure funding needs through a mix of revenues or borrowings at the time that we require. At the moment, we think we have a reasonable amount of funding allocated towards capital, but we will probably have some challenges in the future that we need to address as data gets better and those plans are more sophisticated. No, we do not set aside cash as such for that purpose.

CHAIR: I would be worried about it in the long-term, but I do not think we have any local government that is actually doing it. You seem to be going so well that I thought you might be advanced enough to be able to put those reserves aside. Do you think that all the points you wanted to raise have been covered or would you like to use the last couple of minutes to go through those?

Ms Stidworthy: There a couple of points I would make around the service standards and service levels. They are extremely important to define, but it is very challenging to define them. Within the asset management plans, the scenarios are based on how you measure those service levels and what those service levels will cost the community. We feel that that is central to the discussion on financial sustainability. We are going through a process of trying to define what those service levels are and what the implications are of changing them. There were some comments about community engagement within the QAO report—and that would be a wonderful place to be in—but councils need to understand what their service levels are, what they cost and if they do change them what the implications of that would be.

Our asset management plans run for a period of 10 years and could possibly run for longer. It is certainly possible to do so, but as you get beyond that 10-year time frame or even a five-year time frame the assumptions that you have will only hold true if those conditions eventuate. It is difficult to predict into the future. We find an area that is difficult to predict is the demand for new assets resulting from population growth. We try to use planning forecasts but they are over a very long period of time, 30 years, and often cannot tell you when you need to put in place new infrastructure as a result of population growth. It all depends on traffic, new development and those sorts of things. I know there was a comment made in the report in relation to council forecasts not holding true for the long-term, but obviously it is very difficult to do so because those infrastructure needs become evident the closer you obviously get to that tipping point of when they need to be implemented.

The final point is that as a region we are quite fortunate. We are in a growth region; we are part of South-East Queensland. We recently had a large business develop in our region that is employing just over 50 people at this point in time. They have plans to expand. It may not seem a lot, but it is a lot to us. The benefit to us from that development is the additional funding in terms of rate revenue, but we have challenges around funding the infrastructure we need for population growth. We do feel lucky in this circumstance. We realise that within Queensland there are many councils that have the opposite problem where growth is negative and populations are declining, so financial sustainability must be an extremely large challenge in the face of those additional issues. We feel that we are in a fortunate place.

CHAIR: Thank you very much. From what we have heard and read with regard to the Scenic Rim Regional Council, you have had your issues and you will still have challenges into the future, for sure, but it seems to me that you deserve recognition. I personally commend the council and staff for being able to tackle your problems. It seems as though you are making a lot of progress. I am a country boy and I am pretty down to earth. I see that progress coming from a common-sense approach with a lot of hard work and dedication. It has been refreshing to hear your input this morning. Thank you very much for making the trip down. Did you take a question on notice?

Ms Stidworthy: Yes.

CHAIR: Can we have that back by Wednesday, 5 July please? That would be lovely. You invite has been very good, thank you. We will take a short break.

Proceedings suspended from 9.58 to 10.15 am

BRITTON, Mr Rick, Mayor, Boulia Shire Council

CHAIR: Do you have an opening statement?

Mayor Britton: Yes, I do. Are we sustainable or viable? That is the long-term question. At the beginning of 2017 council began an ongoing journey of proving or disproving our own sustainability. QTC were at the helm of this, and they were just one of many. There is a common misunderstanding about viability and sustainability. To me, viability of a council tells the story of how well we are managing our financial pressures and the community issues we face every year. Sustainability is the continuing journey over a long period of time. The fact that small, remote, rural councils such as ours are dependent on grant funding and will rarely be sustainable on their own does not mean that we are not viable in the long term.

On reviewing several documents, some going back as far as 2007, looking at sustainability of local government, from my period on council I can say that nothing much has changed. We are still in the same position. We have a small rate base. We have a large land mass which is criss-crossed with roads, both gravel and bitumen, requiring various levels of funding to maintain. We have limited or restricted access to services which mainstream Australia take for granted. We face increasing recruitment costs, and also on top of that is a restricted talent pool of people to do those jobs. We have an inability to introduce a user-pays system due to our low population rate. There are increased regulatory requirements for monitoring and reporting without any financial support. We have heavy reliance on road funding which is event related, NDRRA or short-term funding which restricts future planning. The effects of Mother Nature and the impact on the Channel Country through the network are our biggest impediments.

What have we done through that time faced with these problems? Country people are most resilient. With no solution dropping from the sky, we are now in partnership with RAPAD, with the seven councils, to work to meet the needs of our western councils. Many of the points I mentioned are outside of our circle of influence; however, road funding is a potential game-changer. RAPAD also acknowledges that all councils are impacted by the same or similar issues and formed the Outback Regional Road Group and Outback Regional Water Group. We are working collaboratively to make sure we can look at our assets and assess how we can go forward and use them. If we have someone coming out to work on a sewerage system in Boulia, we need to make sure that every other council is lined up so that the on-costs and establishment fees can be shared evenly. It has worked to the benefit of most councils, to a point that some councils that were not going to be on board have seen the cost savings and have now come on board. Now all seven councils are part of the water group. They looked at their own bottom line. Through funding from the state government we can undertake otherwise impossible projects. Sometimes council will forgo our yearly allocation of TIDS money because we might have other money. As the member for Warrego mentioned, we had that NDRRA flood event. It happened in one particular area so we were able to keep our workforce—they had work—so our TIDS money could go to another shire that did not have those events to keep those people employed.

How can we work forward into the future? We are trying to financially forecast a reliable and accurate estimate of future performance to better inform short-, medium- and long-term decision-making where Mother Nature controls most of that. It is no different from other industries: Mother Nature controls how we operate. People probably do not believe that we can have a dry flood, where the rain north of us, outside of our shire, flows through to our shire and impedes our road network. We can be in the middle of a drought and still have flood damage across our shire. RAPAD was working through with the NDRRA withdrawing day labour and machinery. It was vital to keep our people employed. The flood damaged roads are the key to linking and maintaining the council workforce of approximately 59 people and our local contractors numbering approximately 30 people. This equates to 33 per cent of our town population. As with many businesses, the workforce and contractors continue to grow to keep the shire open for the transport of livestock and cattle in the shire, which averages 200,000 head of cattle. Our population is 400 or 500, but we have a large number of livestock.

The beef industry is changing, as I have mentioned before. Boulia is in a position with the beef industry that consists of large breeding areas to the north up in the Territory and up into the gulf and fattening areas in the Channel Country to the south and the south-east of the shire. The live-export trade is booming, and Boulia is in a prime position to capitalise on these newly emerging markets. Once you are above your weight restrictions for live export, people now have an opportunity to put those cattle down in the Channel Country and turn them out. We have markets going either way.

That then has a massive impact on our network. Triple road train traffic is increasing. The number of beasts being trucked through the shire increases the pressure on the shire network, especially the Donohue Highway linking to the Northern Territory. History has shown that a lot of those cattle used to come from the Territory into the shire through Boulia down into the growing area out of Longreach and Central Queensland. Now the trucks are going back loaded as well. We are getting a double impact. A lot of people operating in Queensland now have bought places in the Territory so we are getting that flow-through of traffic—weaners and everything that are coming through.

This road, as I have mentioned before, is particularly important to the future sustainability of the council, but it is the only section in the Outback Way, Australia's longest shortcut is owned and maintained by local government. It is a shire road. We figure that it is on a National Highway. As a local government we are highly reliant on government funding to support the road infrastructure, but it is this very infrastructure that provides Queensland with the ability to transport over 500,000 head of cattle across the Channel Country every year.

One beast creates seven jobs from paddock to plate. You do the maths and see why shires like Boulia are a critical piece of the jigsaw of Queensland's economy. We will look to the future and develop industries that will attract both people and infrastructure. However, it is virtually impossible for council to support the ongoing maintenance costs of plant and equipment from its own-source revenue at a level required to maintain over 1,254 kilometres of road network without ongoing operational expenses generated from flood damage and ongoing road grants funding allocation. Sustainability for most shires means more than resource sharing and downsizing and amalgamations; it is knowing your business, supporting the people who are familiar with the local issues and being accountable for the resources and the finances into our future.

We feel that we are still in the same position as in 2007. I do not know where we are rating in QTC on our sustainability and viability, but nothing has changed. Unless there is a shift in the tax revenue from the state and federal governments, we will still be going down the line we are going down at the moment.

CHAIR: I note that the Queensland Audit Office has assessed the Boulia Shire Council as having an overall moderate relative risk of financial sustainability concerns. Has that been consistent with past years?

Mayor Britton: Yes, it has. That is where we have been. If we want to go to the next level there has to be a change in some tax mechanism, whether it be the financial assistance grants or whether it be zone rebate allowances to encourage people to come out. From my experience, both sides of governments, state and federal, are concentrating on population growth and not productivity growth. The money is being spent on the population and not on productivity. As we know, if we as a nation want to grow and go forward, what we produce will be an economic enabler for everyone to share in our wealth.

CHAIR: Are you saying that if governments are really concerned about the sustainability of these areas they have to have a different approach?

Mayor Britton: There has to be a different approach to the financial assistance grants. I notice that since I think 2015-16 Brisbane City Council is now getting a larger piece of pie than it was out of the financial assistance grants. To me, Brisbane City Council has the capacity to have a 0.20 per cent rate rise to raise that same money. We do not have that capacity. Rural and remote shires do not have that capacity because we do not have the population to have a user-pays system.

CHAIR: A significant hurdle for councils to overcome is planning for the future, especially when funding is short term, specific and often difficult to match with the priorities of the council. Are you in a similar position there? Do you agree with that?

Mayor Britton: It is. One of the advantages of working with rural and remote councils, specifically in Boulia, is that you are so close to your own community that you are driven by your community. You can go down to the pub on a Thursday and meet with most locals and they will give you what we should be doing and where. Because it is a close-knit group, it is easier to find out what your community requires. It then gives you the ability to have a balance between what you can deliver and what your community is requiring. You are not being driven by the squeaky wheel.

CHAIR: I also note that your council asset management function is outsourced.

Mayor Britton: Yes. It is one of those things that I think RAPAD could take on board for cost sharing. That is because of the skill base that we have.

CHAIR: Are you confident of that process? Is it a hands-off thing or do you have input as you go along?

Mayor Britton: We have input. You have to have confidence in the staff that you employ that are making sure they are watching what is achievable and how that is coming through.

Mrs LAUGA: I am interested in local government procurement. How does Bouli procure supplies and services? Do you use Local Buy, do you use your own preferred supplier panels? How do you go about procuring goods and services?

Mayor Britton: We utilise whatever we can. We do utilise Local Buy to go out to the marketplace. When we are looking at plant and hire, we tender to the open market, but it is more focused on people or the businesses that are established in our communities. Are they ratepayers? How long have they been providing a service to our shire? Are they ticking the box in making sure that their work is up to scratch? It is all those sorts of things. Then it is outsourcing and more collaboratively with RAPAD, the seven councils, to see what is working and, instead of trying to reinvent the wheel, talking with those councils to see who is delivering the best service and getting value for their dollar.

Mrs LAUGA: How do you determine whether you use your own local preferred supplier panels versus engaging Local Buy?

Mayor Britton: To me, that is for the CEO and staff. We have set the framework for them. It is then up to them to administer that and put it in place. As an elected member, I do not want to interfere with that. We have set the positions and it is then up to management to implement those.

Mrs LAUGA: Does council have a preference for using local suppliers?

Mayor Britton: Yes, we do. There is a margin, but off the top of my head I cannot specifically say what it is. There is a five dot-point matrix: whether they are ratepayers, how long they have been in the shire. You have to understand that most of the contractors are sponsors of our major events. That then flows onto social wellbeing and connectedness of the community, so that has to be given a weighted index. That is why those people are preferred suppliers to the shire.

Mrs LAUGA: On what basis would a supplier come into the area who is not local?

Mayor Britton: That is something we do not normally do. At the moment we are doing a lot of cement works on projects for the state through our own network. We do not have that expertise. Cement works are something that you have to be doing all the time, so we have called for tenders. We have two groups now that have come from different parts of the state, but we are making sure that they keep their pencils sharp and their managers, through the oversight of the workforce, make sure that the work is value for money. Those two companies are now being very competitive as far as value for money for the shire goes.

Mr PERRETT: I want to touch on specific funding programs. I think you mentioned before that the Brisbane City Council receives certain allocations out of set funding models and programs that are around. What would you like to see with respect to allocations to these remote areas to enhance all of the opportunities that are there for business development but, more importantly, to support current industries—particularly the beef industry?

Mayor Britton: The best thing about living in a remote area is that you are looking in all the time at what is happening, so you have an overview of what is happening across the state. When I come to Brisbane it astounds me because I seem to lose connectivity with what is happening across the region, but when you are in a remote area you are looking in at what is happening in other areas. The regions that are less fortunate in terms of their ability to raise revenue are getting less and the people that have the capacity to raise their own revenue are getting more of the pie.

The issue is that things were put in place to encourage productivity and business to go outside. For example, when the zone rebate came in it encouraged people to go up to Townsville. Living in Townsville now is like living in a city. You have all of the things that you need there, but people outside of those areas do not have that. We have a fly-in fly-out workforce that have the ability to claim all those things, but they have city-style liveability. They are not living in remote areas but they are still eligible for that zone. I think the financial assistance grant is exactly that. Only a small percentage have the ability to raise their own revenue, and a large part of the state will never have that ability.

That is the case for Boulia today. You are asking how to make councils sustainable. The pie needs to be cut. We know there is a limited amount of money, but it is how you distribute that pie to enable businesses to go ahead to make those shires economic, viable and sustainable, and encourage businesses to go out there that is important.

Mr PERRETT: Do you believe that government should make deliberative decisions to support those areas? We touched on the road situation earlier. All of that main roads work is given directly to the local authorities in that area, so there is a deliberative decision by government that may cost government some additional dollars in respect of delivery. I say 'may', but I am of the belief that local government can probably deliver it equally as competitively. Do governments from both sides need to make deliberative decisions to support the regions? There are disadvantages in the first instance, but there are opportunities that can then flow from deliberative government policy.

Mayor Britton: Yes. That then allows us to upskill our workforce, and they are the things that need to be taken into consideration. Our workforce at the moment is 53. We do not have the skill base for particular jobs. By the same token, I agree that they still need to make sure that local government is ticking the boxes and getting value for money. It is not a handout. We want a hand to enable our community to go forward so we can keep our population there and we can upskill the workforce. A person going through the education system has to go away to boarding school, so they need to be skilled up into whatever skills are needed so they come back. The trouble with council is that it used to be a work-intensive industry, but at the moment it has changed. There is machinery now and there are different skills required compared to 20 years ago. We need to change that and encourage youth with skilled jobs and a future, and all tiers of government need to support that.

Mr PERRETT: Most of the local governments that have submitted to this committee have raised the issue of local governments' share of Australian taxation revenue; in other words, the vertical fiscal imbalance in terms of the way funds are distributed across federal, state and local governments. Would you see merit in some change? Obviously it would be a significant change if it were to ever take place. If there were a greater recognition of the work that local government does, particularly in these remote shires, and if there were a change to the whole funding mechanism and taxation process that delivers funds to government to deliver services, is that something that would be advantageous to remote councils like Boulia? I would be interested to hear your comments about that.

Mayor Britton: We are looking at sustainability for the long-term. If we keep doing what we are doing now we are going to be in the same position in 10 years time, so something has to change. Nothing has changed since I was elected in 2007. I think I only just came on board with the SSS amalgamations. Are any of those councils in a better place than they were then? No, I can guarantee they are not. There needs to be a mechanism changed. When you talk about fiscal imbalance, if I have a heart attack here, within five minutes there is a paramedic ambulance here and I have the best specialists in town. If I have a heart attack in Boulia that is not going to happen. The idea of the financial assistance grant was equalisation so that everyone has liveability. It was to assist those who do not have that opportunity. That is where that mechanism needs to be changed. Federal and state governments need to look at pushing that out to encourage those liveability areas to come out.

Mr PERRETT: Is there a feeling in the western regions that there is a certain amount of wealth generation in those areas—I know you touched on the beef industry being the largest single primary production industry in this state—but that money disappears and is not delivered back adequately?

Mayor Britton: It is rife through the mining industry and agriculture. How much money goes out of our area—not any one shire in particular—and what is the ratio of that coming back in? When you look at Boulia shire, we have large pastoral companies. We have the North Australian Pastoral Company and AACo. Their offices are based in Brisbane, so when they do their finances is that where it is being driven, or is it from where the 100,000 head of cattle are producing jobs? Boulia shire is actually creating those jobs. It is a difficult question. As I said before, Brisbane is the heart of Queensland. It is a thriving metropolis and a hub of activity. It is like every wealthy person: once your arteries start clogging up you are going to have a heart attack.

If you go back to the 1970s and have a look at the livestock road train industry and all of those strategies, even the beef industry, where it has gone from the 1970s to now is way ahead. We had 35-foot trailers on a beef road—3.8 feet, I think it was—and now we have triple road trains and state-of-the-art vehicles to deliver the produce that we have been producing for ever and ever in a sustainable way. There are properties in our shire such as AACo, which has been there for 100 years, and I can guarantee that they will be producing more kilograms of beef in more environmentally sustainable ways. Show me another industry that is still delivering. Show me a mine that delivers that. There are more ecosystems on that property than there ever were before producing more kilograms. There are sustainable industries out there; we are just not getting the corridors to deliver them.

Mr PERRETT: Presumably, if there were specific funding programs that would assist local authorities with sustainability in the long-term? I imagine you get regular comments from property owners and residents across your region about deficiencies in some areas and some of the challenges they have. If there were guaranteed funding streams and recognition, then opportunities would further develop in those regions?

Mayor Britton: Yes, that is an enabler in its own right. Live exports and all of that, particularly in Boulia shire, have opened up another marketplace. Instead of being stagnant with one process and producer, we now have the ability in the marketplace. It is like if you sell your house and only one person turns up you are not very happy, but if you have two people vying for your house all of a sudden you move to the next level. I get razed all the time by my rate base, 'What does council deliver for my rates?' The regions seem to feel that they are not getting their equal share. There is no encouragement to go out and develop other industries at the moment. If we had more industries out there we would have more ratepayers and more population, so that takes us up to the next level where we can start looking at user-pays systems.

Mr CRAWFORD: The recruitment of properly qualified staff is something that has come up a bit from some councils, and I could not think of a council more remote than yours. Have you had any challenges in relation to getting properly qualified staff such as financial officers, COEs and the like?

Mayor Britton: It has been a challenge. The biggest challenge is that, because you are in a remote area and, not only that, a small community, there are decisions that council sometimes has to make and that CEOs have to implement, but they also have to live in that area. Some of the locals take that to the hotel; it is that sort of situation. It is a catch 22. Not only that, do you look for young people to come out with a young family, so they are then supporting the school and it helps through the CWA and the P&C et cetera, because their partner will go through that system, yet they may have to get involved with some of the not-too-favourable things that council has to do? Alternatively, do you look for an older person who does not have a family, so they do not get tied up in the day-to-day impact of the decisions council has to make? From what I gather, and this is honest and from the heart, that is a discouragement for people to take on the job. In Boulia, you are very much a part of the community and you are endorsing what council has to set up, so sometimes you step on people's toes, which makes it difficult.

Also, it is about the long-term contracts for those people, because of where we are. We outsource our engineering, which is a very big burden. We would like to have our own, but we do not have the sustainable workforce or forward planning to have a full-time engineering position. At the moment, the majority of our staff have been out there for a period. Our accountant has come up through the system. We are looking at having that in-house. I think Queensland local government really needs to be looking at that when recruiting and encourage it. When people go through the school system at the moment, has the career officer ever said, 'Have you thought about being the CEO of a local government? Have you thought about working as a civil engineer for local government or as a works manager?' I do not think there is anyone out there doing that. There is a lack of forward succession planning and trying to lock people in to come out there. It takes specific people to live in remote rural areas. On the other hand, it is an advantage, because the people who live there want to be there. They are not forced to be there. If you have someone who wants to live there, that is what creates a great community.

Mr CRAWFORD: Obviously this committee went to Boulia a couple of months ago when we were looking at the stock route legislation, so we know what the town looks like. Does council own housing stock? Are there houses available if you were to recruit someone from Brisbane to take on a senior role? Is there somewhere they can live?

Mayor Britton: The Boulia shire is one of the biggest landlords in the town. I think there are 35 houses. We do have a number of those houses for staff. You have to understand, if you are going to have people coming, that you have to make sure that those houses are up to a set standard with the extreme heat and all that sort of thing. If they have a partner and that house is not fit for purpose, the person will not take on the job. We now have allocated a fair budget to make sure that those houses are up to standard. The previous council said that housing was for staff only. We have allocated housing for staff, but we are taking other housing out to the public. I think there are only four houses at the moment that are rented. It may sound funny, but rental houses in Boulia are in very short supply at the moment, because we have taken that decision.

Mr CRAWFORD: Does council make a loss on its houses or does it sustain itself?

Mayor Britton: We have made some very hard decisions and we have turned that around so that people are actually now looking to purchase the houses. We are encouraging that, because then they become ratepayers, which is not a burden on the council.

Mr CRAWFORD: We have asked a few different councils about the political pressures versus the financial pressures. Is there much of an expectation out there on elected members of council such as yourself by the community to provide for new things? Is there any sort of conflict between elected members of council and the council staff themselves over the preference for shiny new things versus financial obligations?

Mayor Britton: There was pressure to go down that path. It keeps coming up. The community keeps saying, 'Our neighbour shire got this much funding.' I work on the principal advice I was given when I was first elected, which is that you have to learn to say yes to your enemies and no to your friends. Over the term, I think we have been very lucky with the councillors we have had. They have been stable over time. In the last three terms, we have had a very stable council where the councillors have taken the view that we cannot put in submissions for projects and build projects that we have no capacity to maintain in the long-term.

You will be fully aware that Boulia has a \$4 million sports centre. It is like having a lead weight on the end of a fishing line. The trouble is that the federal and state governments—and I am not real sure where the money came from—did not have a structure to build a sports centre; it had to be X amount of dollars. You could not build a fit-for-purpose structure, because there was no funding for that. You had to build this golden triangle thing. Council has actually pulled back from that and is only allowing what that we can handle in the long-term. We have a life of maintenance. At the moment, the state government with the Working for Queensland program, I think, has hit the mark, so we can maintain the infrastructure that we have in place. As a low rate base, we struggle with that at times. We have halls, libraries and those things that have high maintenance costs, but we do not have the rate base to maintain them. Having that the way it is has been encouraging. That is the sort of system that we are talking about. If they change the financial assistance grants so we get that general money coming in, we can maintain infrastructure.

We have taken the view of looking at the positives about living where we live. A lot of people focus on the negative things, but you need to focus on the positive things. Your kids can go to school. We can go on holidays and leave the house open. There is barely a lock in the shire. People pay to have the privilege of living that lifestyle. When I first came to council, the young CEO and his family were from Dalby. His wife's mother said, 'What are you going to eat when you live out there?' After 12 months, they went away for a six-week holiday, but after a fortnight the kids said, 'Can we go home to Boulia?' It is that liveability and lifestyle that we do not sell, but I think it is a privilege in itself.

Mr CRAWFORD: I used to be a locksmith years ago. Obviously, I would have no career in Boulia.

Mayor Britton: You would be on a hiding for nothing out there.

Mr CRAWFORD: Rick, the Southern Downs Regional Council said—

SDRC believes that one option may be that the Department of Local Government should be provided with additional responsibilities that would allow intervention when the financial sustainability of a local government is at risk. This may mean that the Department needs to be granted additional powers ... to undertake this role.

They went on to say that they thought that councils should run their prospective budgets by the department of local government before it gets to a point where it is voted on by council. What would you say to those comments?

Mayor Britton: Is that department going to come out and live at Boulia for 12 months to get a real feel? It is different. Since I have been on council, the catch phrase is that we realise that when we bring in a policy one size does not fit all, but that is as far as it goes. Every time there is a policy, we have to fit in that one basket. They are aware that we do not all fit in one basket, but it does not happen. They do not change the rules because you are rural or remote or you are in Toowoomba, Goondiwindi or somewhere like that. I think that is the biggest issue. I am not knocking departments. There are some great people and they do some great work. However, you have to be living and breathing in our regions to get a real feel for the impact that we have and the issues that we face day to day. There is nothing like checks and balances, but is it going to be a burden and are they going to have firsthand experience of what is happening in our shire and of the impediments that we have?

CHAIR: We cannot let you go like that, Rick, can we?

Mayor Britton: I have a list here that I could talk about. I have actually done some homework, although I was failure at that when I went to school.

CHAIR: There is recognition that a council of your size is continually walking the line between financial sustainability and something going wrong and you end up in big trouble. What would it take to actually send your council into big trouble financially?

Mayor Britton: The NDRRA, with day labour and work plant. We were going down that path because of the workforce. We were going down that path. If that mechanism had not changed, we would have been in that bucket. I am being honest here. We are not trying to cover it up. It is there in black and white. It was having a massive impact on our whole viability, our workforce and our sustainability. That was one of the big things that was coming. It was coming. If it had not changed in five years time, it would disappear.

CHAIR: Do you mean the delays in getting the funding or the—

Mayor Britton: When they stopped us from claiming day labour and our machinery. The argument was that something that had been in place had been taken over by someone else and interpreted in a different way. We already had people employed, but we were actually working on a state network through it. I can honestly say that you could see the writing on the wall, if the NDRRA did not change to what it is.

I can say with my other hat on, which I had on at the other hearing this morning, that Boulia Shire Council should be a road contractor for the state. That is where we hit the mark. People say, 'Do you make a profit out of road building?' Yes, we do and we can deliver value for money, because we have people living there and we have skills. You talked about a skills base. How many people in a metropolitan area know firsthand what it takes to build a road network? You have different soils and different water types. When you are mixing soils to roll out a road, you have to have firsthand experience and you cannot learn that out of a book. You have to have the skills base to know the soil type and the water types. You have to know how to create the mix and get the formula that will pass a soil test to lay the bitumen. We are losing those skills, because of the lack of forward planning. The real honest truth is that I think the government needs to look at how we enable those skills to be upskilled for the long-term viability of our councils.

CHAIR: I hear what you are saying. Has your council or are you aware of other councils that have raised that specific issue with local government agencies?

Mayor Britton: I think you will find that the Outback Regional Road Group has raised those concerns. The idea with the Inland Queensland Road Action Plan was that, with those 33 councils, it could be given a tick to endorse it, take it forward and trial it, even on a five-year plan, to say if we went down this path and it was a tool to use, what would be the economic benefit long term for the dollar value that government is giving out? You are assisting the communities, you are upskilling the workforce and you are giving those people job security. Even our contractors have a lot of money sitting out there, thinking that there might be a lot of road funding coming next year. Yesterday or the day before, we sat down with all of our contractors and said, 'This is the pool of money that we have; we are going to have to cut your hours back or start putting you off.' Once they leave our shire, it is difficult to get them back in.

CHAIR: Why are you in that situation now?

Mayor Britton: It is because there was no summer rain event. We did not have a flood event. Because we have that relationship with our workforce, we have asked them to come up with suggestions so that we can keep at least one of their plant on the payroll. Some out there have five or six road trains and graders and we are saying, 'No, we realise this, but we want someone to have one plant working and we can take it out this far.'

CHAIR: Are there any other areas you are concerned about?

Mayor Britton: It is a difficult question with local government finance and accrual accounting. It is hard to get your head around it. With my business, come June it is cut and dry. With accrual accounting, it is a bit hard with your finances. Now that the federal government is paying us a percentage of our financial assistance grants, it makes this year's books look good but next year they will look pear-shaped. Those things get into the mix of it. State and federal governments can put mechanisms in places to make our councils sustainable. We are working hard now to tick all the boxes and make sure we are doing that, as far out as we can finance and work on our forward planning. The other tier of government needs to look at it and say, 'How will we keep these areas populated?'

CHAIR: Because you have difficulty understanding accrual accounting processes, do you get advice? Is that advice easy for you to understand and to pass on to your staff?

Mayor Britton: I keep asking questions until I can understand it. Sometimes the staff get very annoyed because I keep asking.

CHAIR: What about information outside of local council?

Mayor Britton: I suppose one of the first things I learned when I got on council was that people have already done all these things. It is no good reinventing the wheel. Someone out there has skills and can explain how the mechanism works to a layperson like me. How long does one go through university to become an accountant? Then they expect a person elected to council to fully understand that. Over the period of local government, very few mayors have been accountants who could understand the bookwork. As I keep saying in my own industry, you do not need to know everything. There are people out there with set skills who can help you through that. Our current CEO is very much in that bracket. That is why that person was employed. I and the council want to make sure that we leave a legacy of the best financial management for our ratepayers and the community we live in.

Ms LEAHY: Yesterday local government managers appeared before the committee. We learned that the Noosa Regional Council owns a shopping centre and is able to make own-source revenue from that shopping centre. It does not distract from its core business but does help take the pressure off its ratepayers. You talked about other industries in the Boulia shire. What sorts of opportunities does Boulia shire have to get own-source revenue if, under the Local Government Act, it was given more opportunities to do that?

Mayor Britton: It is difficult. We are trying to do a feasibility study of a spelling facility within the shire. It would be a million dollar racecourse reserve. We hold races, campdraft and rodeos at that facility. It is now a burden because of maintenance costs. We have a campdraft of over 600 competitors, so we do have the facility to hold large amounts of cattle. Because of where live export and cattle are at the moment, and with driver fatigue laws are coming in, there is an opportunity, for a small investment, to turn it into a spelling facility and then lease it. That would provide some revenue.

We have looked at opportunities in regard to rare minerals. We are trying to put in a mining rating system. We have industrial areas and urban areas and mechanisms in place such that if the mining industry wants to establish itself there they need to help us build it up by putting in the wires, the water and so on. Those are the things that we need to have in place. It might not happen for another 20 years, but we need those things in place.

We need mining. We have done a lot of work with Central Highlands, Cloncurry and Mckinlay shires. We asked: if they had a clean sheet of paper before mining occurred, what would they have in place? We have taken that on board and put that into council policy so that, if that ever happens, our community will benefit from that.

I suppose it is limited. The shire did own the hotel and we built a sports centre. There are a lot more drinkers than fitness people in Boulia. I cannot understand why that is! We had a caravan park and it was sold on. There are opportunities there but they have been sold. Council would not now want to go into an established business as we would be competing with private enterprise, and we want private enterprise to invest because then they become ratepayers. Sometimes councils are very ordinary at running a business. The feedback I get all the time is that we are poor managers of a business. When you look at the steps you have to go through compared to private enterprise, that can sometimes be an impediment.

Ms LEAHY: Your opportunities are limited because you do not have population compared to, say, Noosa. Would a different type of model work? You talked about the caravan park and those sorts of things that council has developed and been able to sell. Would it be a different sort of model that does the seed funding to help council establish the business and then attract an operator? It might not be a lease; it might be a sale.

Mayor Britton: Yes, it is. Those opportunities are out there. We just need to keep thinking outside the box of what is the potential and what is in the future? Ten years ago we did not have mobile phones. Communication issues hold back remote and rural councils. We talk about road networks and so on, but that impacts things such as when children have to go away to boarding school. It is now a lot easier for the parents who have a mobile service to talk to their children at school. There is that connectivity, whereas before that was never in place. I think communication is paramount. People talk about the digital economy. We need to have that in place. Once at a conference someone said that we could get Townsville City to do our rates for us. With the digital economy, we could do Townsville's rates. Do not turn it around. What is the positive? Let us create our business. You have businesses there. How can you encourage us to create businesses, not take business out?

Ms LEAHY: You might be able to do their rates cheaper?

Mayor Britton: If you had a complaint about your rates, you could have come to Boulia! It is about taking the positives of what can be done in the future. Do not look at the negatives of sustainability; look forward. How can we enhance these councils to be more sustainable and viable? We always look at the negative side of things. We do not look at the positive potential in the future.

CHAIR: Thank you, Rick. We appreciate your coming down here and facing up to us on two occasions this morning. That has been excellent. We appreciate your input.

Mayor Britton: Thank you very much for the opportunity. I hope we assisted so we can go forward. There needs to be a positive attitude about how we can take it forward from here.

CHAIR: It has been good. Thank you very much.

BENHAM, Ms Lisa, Manager, Finance, North Burnett Regional Council

CHAMBERS, Councillor Rachel, Mayor, North Burnett Regional Council

PITT, Mr Mark, Chief Executive Officer, North Burnett Regional Council

CHAIR: I now welcome representatives from North Burnett Regional Council. Do you have opening statements?

Mayor Chambers: I would like to thank you all for having us here today. This is a hugely complicated, important issue which needs much discussion to understand its full complexity. I know that your job is quite complicated at this time.

CHAIR: Thank you. I am glad somebody has said that!

Mayor Chambers: It is extremely evident, especially after just returning from the Australian Local Government Conference in Canberra, that local governments across the nation have many and different roles within the communities they serve. Factors such as community expectations, a lack of services which sometimes councils find themselves filling the gap for, and a variety of governance structures across the state and nation complicate this even further.

Coming from a business background, the idea that councils sometimes make the informed decision to keep active infrastructure or projects which are losing money, such as community swimming pools, was originally a very strange concept to me. Why on earth would you choose to lose money? It did not take me long to understand that council and business are completely different beasts. For example, in the North Burnett we operate five swimming pools. One of our towns does not have one and we are lobbied continually to change that. Every year we choose to make a loss of \$850,000 in order to keep all five pools in all five communities operational. This of course hurts the business side of my brain, which tells me that if I cannot make these operate cost neutrally I should get rid of them, except that then the elected part of me—I am charged with making decisions on behalf of the best interests of my community—kicks in. If we closed the pools, children would not be able to go to learn-to-swim classes, North Burnett students would be disadvantaged in interschool swimming competitions as it would be the only time they get to access water, the fun of exercise and rehabilitation would be lost to the community, and gone would be summer weekend recreation. In the North Burnett, a region of 20,000 square kilometres and only 10,000 people, there is no commercial viability in operating a swimming pool, yet there is great community need for this infrastructure, so once again council steps in and, albeit begrudgingly, fills the gap and makes a loss in the best interests of its people.

In areas such as ours, many stories like this exist where a lack of commercial viability, due to low population numbers or the tyranny of distance, has pushed councils into picking up the slack. If we ever are pushed into decision-making whereby we need to review our customer service levels and the bottom line is the only consideration given, I am convinced we will further lose our regional communities.

Before you think I am an advocate for losing money—I am certainly not—I would like to reassure you that I am an advocate for strategy, innovation and long-term planning. In my experience, this is what has been lacking in local government. I have much contemplated why this may be. If elected officials are charged with setting the direction of council and are able to make really any decisions that they deem appropriate in order to effect change, we need to start here. Many councillors come into government with little of the relevant knowledge or experience required to have a full understanding of the impact, financial or otherwise, of their decisions. Given that the only prerequisites to nominate as a councillor are to be over 18, reside in the area, be on the electoral roll and not be bankrupt, currently in prison or in government, perhaps the lack of asset management and planning should be expected.

Regardless of any advice given to me or my councillors by the CEO or the CFO, at the end of the day the decision to spend, what to spend it on, what to save and what to rate is firmly in the councillors' hands. I am of the opinion that in order to effectively begin to change the long-term sustainability and even more so the long-term success of many councils mandatory councillor financial and decision-making training should be introduced. Finally, I need this committee to understand that, once again, a one-size-fits-all model does not fit all. If we continue to assess councils using financial sustainability ratios which do not take in the nuances of individual councils, continue to believe that the uncertainty of grant income does not have a substantial impact if those councils are unable to increase their own source revenue, continue to not make provisions for councils that have been impacted by natural disasters, continue to place more and more pressure on councils with

increasing levels of compliance and continue to ignore the lack of resources available in regional, rural and remote councils, we will continue to come to the same conclusions. From my observations, most councillors, councils and staff are doing their absolute best every day and if we move towards a more supportive model which offered opportunities for further training, education and extra resources, if required, we would be able to all move to build towards our future success.

CHAIR: Excellent. From the Queensland Audit Office assessment of the North Burnett Regional Council, they place your council at a high relative risk of financial sustainability concerns. Has that been consistent in recent years?

Mr Pitt: It is an interesting question because we are currently in this financial year considered high risk. We were medium risk the previous year. This year we will make a surplus and then next year if everything goes we will jump back into high risk again. One of the issues that I have had for an extremely long time is our statements do not necessarily reflect anymore the actual operating position of the council. We had floods in 2010, 2011, 2013, 2015 and 2017. In terms of the amount of money that goes through—the early payment of the FAGs and not being able to treat it as own source revenue—there would be a \$5 million gap in next year's budget just on the early treatment of the FAGs. The cash is lovely, but it would be better in the next financial year because it affects where we sit in those ratios as per the statements.

We have operated our business from amalgamation. We were the second largest amalgamated council in 2008 behind Toowoomba. As to the number of councils, there were six put together to get North Burnett. Toowoomba had eight and then there was us with six. We were put on financial watch almost immediately after amalgamation and it has been a long journey for us to reach this position. Seven years ago I can honestly say we were struggling to think how we would pay payroll. Today we have \$25 million in the bank, yet we sit at high risk.

CHAIR: I find that interesting. Are you able to give me any more detail as to why that is happening?

Mr Pitt: One of the better programs that the department ever ran was the business coaching program back in 2009-10. We developed a very strong relationship with our coach, which was a group called Mead Perry, and they still work with us today. We plotted forward a path. There were some decisions taken in the first term of council where we reduced service. I always use the term Maslow's triangle: we were in basic survival after amalgamation. They put six small financially distressed councils together and got one big one and went, 'How did that happen?' There was a loss of service standards. We reduced staff. At our peak in 2010 we had about 275 hot bodies; today we have 200. We have done a range of things to ensure our own financial survival, yet year in, year out we struggle to meet some of the financial ratios they give us. We have concentrated on our cash position. We have really protected that and we have accumulated cash over a period of time.

As a corporation, I have to say, we have about \$896 million worth of assets. We are a very high asset council. We have the fifth largest road network in Queensland, a large area, a low population and a low rate base, so we have had to be reasonably innovative in how we operate. We maintain a decentralised model—because of natural disasters, we need a presence in every town—low debt and we have strengthened our cash position. As a corporation if you look at our balance sheet, we are actually not too bad. As the mayor quite rightly points out, there are also other political considerations in that, so we run not in a pure business sense; we run a lot of functions that no-one else would do.

CHAIR: For example?

Mr Pitt: Pools and the stock standard things. There is a social aspect to our organisation.

CHAIR: In the Auditor-General's assessment process he identified that you received a below average rating for the quality of financial statements on the basis that adjustments for at least one of the three components were greater than five per cent. Do you want to explain that to us?

Ms Benham: Yes, I would be happy to. It was actually one asset that came under, so the quality in the mainstream was fine. It was just one asset was valued incorrectly and found at the very last point in time. That attributed about a \$5 million variation in that class of assets. Overall we were pretty close; it was just that one adjustment, and there were two provisions as well that were outside of tolerance for that.

CHAIR: Am I picking up here that the QAO might be a little bit broad in some of the statements that they are making?

Mayor Chambers: I think you may be picking that up.

Mr Pitt: You are picking that up, yes. If you look at our history, even since amalgamation—my time with council has been since 2010—we had one qualified audit and that was an asset revaluation issue which was the 2013 flood. Bundaberg rightly got a lot of the focus out of the 2013 flood, but for a small organisation we suffered about \$130 million worth of infrastructure damage, we had a third of our population go underwater and we were pretty much devastated along the banks of the Burnett River. We did not quite get the asset valuation done that year. We argued tooth and nail about it—a bit of, as I call it, dirty pride—because we did not want the qualification, but it just happened. The rest of the time our statements and our audit are good.

CHAIR: Thank you for that.

Ms LEAHY: I am still rather perplexed about your chief executive officer's statement that you have \$25 million in the bank and you are still considered high risk. Does that tell us that the Queensland Audit Office ratios really are not working? I am just trying to get right to the bottom of it. If you looked at a business, you would say, 'That's an asset,' and you would be meeting your outgoings and your incomings. Something is not right here. I am really trying to get to the bottom of that.

Mr Pitt: Yes. I am not an accountant, so—

Ms LEAHY: You can all have a go; that is fine.

Mr Pitt: With regard to the distortion in the accounts at the end of the year, in this year's accounts we have had some expenditure from previous financial years. There is a rational reason this year we are moving into surplus. There is the \$5 million with the early FAG payments. I do not want to harp on about FAGs—while it is appreciated and the sentiment is there; it makes good sense—but if we could show that as unearned revenue it would balance out what is happening. The NDRRA money, which is, again, extremely welcomed and appreciated, distorts the statements. We adopted a strategic framework back in 2010 to drag ourselves out of trouble and we do not cross-subsidise across asset classes. We particularly concentrated on our capital spend and we love using other people's money. It is a tremendous thing and it is really beneficial and we are very appreciative of it, but we have a limited amount of our own cash that we put into things and we live within our means and I am quite proud to say that we could operate our council on that basis for a very long time.

Ms Benham: Since 2010 when we experienced extreme hardship we brought in a philosophy where we were maintaining cash. We made sure that we had enough cash at all points in time to cover all of our liquidity requirements. We adopted a philosophy where if you were going under budget you continued under budget; you did not spend to your budget if you had no need for it on an operating level and a capital level. All managers adopted that and we have worked extremely hard as a group to make sure every year we are adding to our cash balance and not deducting from that cash balance. That is how we have seen that every year—year on year—we are getting increases in our cash position and not reductions in our cash position.

From the two ratios that we struggle to achieve being the operating surplus, we are making deficits. However, we are then reducing the amount we are spending on our capital so then we are not achieving that ratio either. Between the two of them, we cannot achieve it but we are making sure that we are looking after the cash position of this council and making sure we have the ability to absorb shock when the day comes that a sewage treatment plant needs replacing. Therefore, we have the ability to borrow and we have the cash in the bank to be able to position ourselves well in that scenario.

Ms LEAHY: Have you done a lot of work on your assets plan and when your assets need to be renewed? Do you know where those points in time are in the future when something might happen when you need to access those funds?

Mr Pitt: It is very much a work in progress. We have a full set of asset plans, so we are compliant. We have recognised that we are now reaching a stage in maturity, and a lot of this is in the context of the amalgamation with the 10th year next year. We started at an extremely low base in terms of the information, and that is not a negative reflective of resourcing. We had to groundtruth a lot of data such as road lengths and a whole range of data over a long period of time. This next year we have moved into a little bit more of an expansive budget phase than we have for a very long time because we have a number of these projects that we want to bring to maturity. We are not anywhere near where we would like to be with asset management but have got a thought process in place to get us to there by the end of this next 12 months.

Mayor Chambers: Further to that, the new position created is actually called the General Manager of Asset Strategy and Innovation, so that is very clear that that is the way the organisation is going to get a very clear picture and then feed it back into our financial planning as well.

Ms LEAHY: Okay. Lots of challenges.

Mayor Chambers: What is life without challenge?

Mrs LAUGA: The Audit Office said that the high relative risk was given to North Burnett Regional Council based on current income, expenditure, asset investment and debt financing policies. They said that you have strong net financial liabilities positions and a strong asset sustainability ratio, but their concerns and the high risk was based on income expenditure, asset investment and debt financing policies. I know that you have spoken about the pools and operating expenses, but could you just talk to me more about income and your rates? Have you had increases in the last couple of years? You have lots of cash, but why is the Audit Office identifying expenditure as one of the key issues for the high risk and also your debt financing policies?

Mr Pitt: With regard to our expenditure budgets, when you look at our operational budget every year, by necessity—necessity is a wonderful word—we have had to build an extremely tightly run ship. We at budget process are down to arguing about \$100 and \$1,000 projects. It is an interesting and a good question because it sometimes perplexes me. We have consistently hit our expenditure budget and come in under it every year. We hold our expenditure. In real terms in 2007 the six councils had a combined budget of about \$30 million in round numbers. We spend \$33 million today. We have gone back and looked. We bought computers. We know how much electricity the computers use. We know every phone account. We have to. We know every cent and every dollar in our organisation—where it goes and how it goes—and, yes, sometimes it is really quite perplexing to repeat myself that they identify expenditure because our expenditure budgets are consistently within framework.

Mayor Chambers: As for the income, with a revenue base of about 7,600 rateable properties—

Ms Benham: Some 6,500.

Mayor Chambers: With 6,500 rateable properties, rates account for around 35 per cent of our total income. We have the rates, of course, fees and charges, and then grants and other subsidies. Our own ability to increase our own source revenue is very limited to increasing our rates. This goes back to the elected members' two trains of thought. We can have QTC come in and have a structured policy of, yes, you have to increase your rates, which they have, five per cent every year for the next 10 years. We have had an amalgamated council that has already had towns increase their rates substantially since that amalgamation. We are getting as close to that five per cent as we can, however, there is that risk element to doing that.

If you look at the QAO reports, I look at it and go, 'Five per cent every year for the next 10 years is still not going to make us financially viable under their methods.' I look at it and go, 'What you are looking for is we need to increase that percentage by 100 per cent this year and then CPI it for the rest and then we will be considered in the sustainable realm.' We are so far removed from that own source income sustainability ratio, unless we can find some kind of corporation in our backyard where council can create its own source revenue, which we have. We are looking at three different things at the moment. It is not like we have put that on the backburner saying we just cannot have it, it is just that those kinds of things do not happen often and you certainly cannot guarantee it.

Ms Benham: From the debt side, I am a little bit perplexed about that one because we are very conservative on debt in North Burnett. We have about \$4.5 million worth of debt. We have \$25 million worth of cash in the bank. Last year we only borrowed half of our initial borrowings because we made a decision that we do not want to enter into debt when we have the cash to support that asset that we invested in. This year we only borrowed two-thirds of what we did, next year we have got nothing. I am a little bit perplexed about that one and I would have to disagree that our debt framework is a problem because we are very, very conservative on that front.

Mrs LAUGA: The Audit Office said that you have a strong net financial liabilities position, but their concern was about debt financing policies. Is that with respect to how you go about financing debts that their concern is, not with respect to the level of debt?

Mr Pitt: I suspect it is probably one of several disagreements we have had with the Audit Office for some period of time because our position and their position are somewhat different. When we borrow we tend to actually borrow for asset or income-producing assets, be it water or sewerage. That is predominantly where you are talking about asset management. A lot of these points converge. For a lot of this you really cannot pull one bit out. Back in 2009-10 you are talking about asset

management. We worked out \$32 million deficit in water and sewerage. A lot of our water and sewerage infrastructure was aged and we inherited it with the amalgamation. It was in terribly poor condition. We could not afford to borrow \$32 million even over 10 years.

Biggenden sewage treatment ponds we are very proud of. It won the IPWEA project for under \$1 million. It was innovative. We looked at a current design with all the technical bells and whistles on it. It would have cost us more to operate it than it would to build it. We could not afford to build it for \$1 million. We have an exceptional staff member that is very skilled in water and sewerage. We built a rock and sand filtration system, fully environmentally compliant. It won the IPWEA design. IPWEA is now thinking about utilising that design overseas for Third World countries because it is simple, appropriate technology that serves a purpose.

We have come to the innovation driven by necessity maybe you will say, but we have come to those positions. Where that comes back to debt, we have been borrowing for debt for water and sewerage so our debt thinking and our debt framework sometimes maybe where they get concerned is we are, I will not say as flashy as some, we do not have the resources to be showy. We just get in and do the job. Whether it comes from that, I would very humbly disagree with their assessment.

Mrs LAUGA: That is coming up a bit. The word 'perplexed' is one you have used a few times now. What sort of engagement do you get with the Audit Office? Do they come in, do the audit, you find out the results and that is the end of it? Do you get feedback? Is it a two-way dialogue about ways in which you can improve? Do they understand that you disagree with some of the measures that they use?

Mr Pitt: The auditors on the ground, the contract auditors, they engage, we have very robust and good debate. They do their job. It is a good formal process. Where it seems to be a little bit odd sometimes is probably at that higher end. Certainly I understand the audit office has a role to do and they have a framework that applies to the whole of local government and maybe that is part of the issue. As the mayor quite rightly said, one size does not fit all.

Mayor Chambers: It goes back to QAO, QTC, local governments. I have recently gone to QTC and said, 'Hey, I feel like we are working against each other.' That is not the case, but that is how I feel. It is the same with QAO. They come in and do the Big Brother sort of thing rather than, 'I see there is a problem going on here. Can we try to understand what it is?' We absolutely want as much help as we can get. I do not think you would find any council in Australia or perhaps the world that wants to do a bad job. I think everyone wants to do a good job. Sometimes when you go along and you are doing your day-to-day stuff it is fantastic to have an outside perspective, but an outside perspective with a view to help, not an outside perspective with a view to judge.

Mr PERRETT: It is good to have the North Burnett Regional Council here today. Welcome. I have a number of questions, but I will follow on from that last one where you were talking about the cash reserves. What percentage of those reserves are constrained and, if so, for what purposes?

Ms Benham: We have some constrained cash. I would say, just off the top of my head, other than employee benefits we would probably have \$1.5 million that is constrained. However, we have a quite strict policy within our council around capital projects in that if you have not finished your capital project by the end of the year you go back into rebids for the money available in the next year. We do not carry capital projects over as restricted cash into the future years. We have certain projects, we do the one or twos where we go and say look that is an over three-year project and we will carry over some of those funds for you, but effectively in 90 per cent of projects the next year's capital available funds are deducted to do the overspends. It is purely around our provisions for landfills that we have restricted cash for. We have a lot of liabilities for employee benefits, but we have restricted the cash for those.

Mr Pitt: Just to support that, any of the grant funding that we receive for a specific project is restrained to that specific program so that cash is isolated. We have taken to heart the three months operating cash in the bank that QTC recommends so that is sitting there as its own entity. I support Lisa's comment that we are quite proud to say that if we were a business and they folded us up tomorrow every one of our employee liabilities is fully cash backed and just sitting there and that is not touched.

Mr PERRETT: That is important. I want to get a feel from you about the challenges that you have, both politically within the region, knowing that, and I think the CEO touched on it before, there were six councils, and I remember that quite clearly because I was in local government at the same time when that happened, six unviable councils that were deemed to be unviable put into one council

that was again, whoops, deemed to be unviable too. This may be one for Rachel. I am aware that you have six divisions and pretty well those six divisions are all based on individual towns with some of the challenges that go with those towns competing against others for various things. You talk about the decentralised model that you have adopted.

I think the South Burnett council may have been in a similar situation, but I see some commentary recently in the paper in discussions in their council about some of the challenges that it is creating to keep that model going in respect to efficiencies and additional costs. I would like the committee to hear this, because I know it is an issue, and it always has been in the North Burnett, how you balance those political pressures from individual councillors in those townships that are parochial. I remember it clearly, and I will say it here, when I was in the Kilkiven council, Kilkiven and Goomeri, the CEO used to say if you put a flagpole up in Kilkiven in the morning, if you did not have one up in Goomeri that afternoon there would be a town riot. I want the committee to hear how you manage that in respect of the ongoing financial sustainability of the council that you represent.

Mayor Chambers: Hence in my opening address I said I have two parts of my brain and I weigh them continually. You are right in that North Burnett is a little bit more unusual in that it does not have a centre. I cannot think of another region that does not have a centre. Previous to this life in economic development I did a three-month study on regional, rural and remote communities under 10,000 people and one of the things that they said is that to survive regions must have a centre. One of the things that I struggle with is that. The choice to find a centre, if that was the way that we were going to go, is that we have got such equal towns across the region. Two are on the highway and very, very strong in their own right and then we have got the distance. To give you an idea about our own council issues, if we were going to put a council administration office and choose a town it would be Mount Perry. Mount Perry is 45 minutes drive from every town but Monto which is about an hour and 20 minutes. That is the closest town for everyone. It has the least amount of infrastructure. We have one building and it is small and it has one meeting room in it. There are Those kinds of things. Nothing is working. You go, 'What about this?' 'Well, that does not work because of this, this and this reason.'

As far as the parochialism, I came into this council without having spent time or lived in any of the towns previously. I had only been in the North Burnett for three years and lived in Gayndah. I have a very, very strong regional view and I felt right from the beginning that as a mayor it was my job to change the perception and get everyone to work together. I am very pleased to say that our councillors do that very well. Yes, you still stick up for your patch, but one of the things that we were very clear about from the beginning is that every councillor was to go into every region to represent someone else. If you wanted to call in a councillor, anyone in the regions can call on any other councillor because of that reason, to try to break down that cycle of parochialism.

As far as you go, it is a nightmare. I would hate to have, or I would love to have an audit on how long our staff are on the road a day and what the waste and inefficiencies for that are. We are trying to address that through technology. We are now having Skype staff meetings, but there is a certain amount of that that just needs to happen face-to-face. Having towns an hour away from each other, that is huge. Going back to the community expectation, and I like to come down to Brisbane and use a Brisbane example, being a Brisbane girl: would people in Brisbane, if we made a centralised model, which would probably give a two-hour run to the outskirts, be happy if you put the main office in Noosa so that they had to go to council in Noosa in order to see someone face-to-face?

As much as my business brain says choose a centre, invest in one administration building, move all the staff into that one administration building, which would just be amazing, it would revolutionise the region and the staff, as much as that would be fantastic, what does that look like in the community? We are thinking with innovation as well in that what could it look like in the community, in that what do the community actually expect from their councils now, how do they interact with us. We are doing all that research. How do they actually interact with us, what do they expect, and how could that possibly be delivered in a way that meets their expectations, or even exceeds their expectations that may be more beneficial to all of us as well?

There is definitely not a quick fix and there is definitely a huge problem. I know that South Burnett has made some steps and made some decisions a little while ago, but they also had a centre that was bigger than other centres and they are also much, much closer. If anyone has any suggestions let us know, but what you said is absolutely right.

Mr PERRETT: I raise it because I know that it is one of the challenges that you have, and I do not know whether that was broadly known among the committee. You mentioned the swimming pool. You also have water treatment plants, sewage treatment plants and council offices and depots. You have multiple facilities.

Mayor Chambers: They are all old. Gayndah is the oldest town in Queensland, and everything is old. Take our council staff workplace, for example. I am not happy representing this region as mayor knowing that my staff work in a less than standard workspace. We do not have the capacity to build anything, because we do not want to build anything in different places. We are also looking at staff movement across the region. Where do we move departments? Where do we put our depots? Just because the depots are there now through legacy, where should they be? We are all trying to address those kind of things, but it is like moving a puzzle around in that every time you move something, something else moves. It is a huge issue.

Mr Pitt: I will give a small, practical example on the distance travelled. I work on average 60 hours a week and spend 12 hours of that in a vehicle. I work between all six offices, and there is no telecommunications between the towns. Of that 12 hours, 10 hours is dead time. You cannot use hands-free phones—we would not do anything illegal! That is just an example. Of my 60 hours week in week out, 12 hours of that is spent in a vehicle.

Mr PERRETT: You raised the sustainability of revenue sources for local government—and a lot of other councils have raised this—in terms of the vertical fiscal imbalance. You have the ratios within your report that a number of other councils have presented as well, and you have raised the issue of where you go, particularly councils such as this. The current model of own source revenue we mentioned is about 30 per cent through rates as opposed to the collection of taxation across this nation—83 per cent for the Commonwealth, 14 per cent for the state and only three per cent for local government. Does there need to be a broader discussion about the funding for local government? Would you support COAG discussing this? I know the LGAQ has a policy in and around this very issue, but would this address some of the challenges that you face in terms of own source revenue?

Mr Pitt: Just as a really good practical example, I would imagine the FAGs freeze and the consistency of FAGs has come up. In 2013-14 we dropped \$574,000 in FAGs. A one per cent general rate rise for us nets between \$70,000 and \$75,000. Every time that occurs, we can never catch up. When we get hit like that, we can never catch up. It has that sort of impact. There is no capacity of the ratepayer to make up \$500,000.

Mayor Chambers: Absolutely. Even in terms of our cost of staffing, our rate rise this year only just offsets that. If you increase rates it has such a small impact on income. It is almost negligible. We talk about relying on that funding. We are heavily reliant on that funding. I am not sure what kind of model we would have to go to if we just had to rely on our own source revenue. I would certainly have to strip back a few things.

That brings me to my corporate plan. On purpose we blew up our last corporate plan and we now have it to five themes. One of those themes is the core business of council, namely the things that you just could not possibly not do—sewerage, water, roads—because no-one else will do it. The other four themes are things that we could scale back. The reason I did that is that if we scale those back what does the community look like? I wanted it to be really obvious that if we had to go back to just own source revenue and we could not even do our roads or anything—we would just go home—it would not look like anything. I would absolutely support COAG talks on the subject because it seems we are getting so much downward pressure without the upward funding. There is no meeting in the middle at all.

Mr PERRETT: I am interested to hear that, because most other councils have raised it and you have got the very table that a number of other councils also used about this vertical fiscal imbalance of funding for local government given the assets. It is nearly \$900 million of assets, but there is a very small revenue base to be able to service and replace those core community infrastructure assets.

Ms LEAHY: You are divisional and your divisions are based on those historic six shires. You still have depots in each one of those areas, so it is a very decentralised system.

Mayor Chambers: We do not actually have depots in each of them; we have them in some. We are talking about the strategic places they should be. We have tried to run a decentralised model that works in that we have the call centre now based in Monto. They have a certain function. The rates centre is based on Eidsvold. They have a certain function so that we do not have staff going left, right and centre as much as possible. We also moved the administrations into the libraries in all but one of our communities to try and consolidate that kind of resource. As much as it is absolutely decentralised, we have tried to make it work as best we can by changing some things.

Ms LEAHY: I am interested in that, because I have an amalgamated shire that saw five councils amalgamated into one. They have a large centre. They are now trying to put things back out to those communities. They have sort of gone inwards and because they went in it has increased that

amount of drive time and they also lost a lot of corporate knowledge in those communities. You cannot work out what you have to do with a drainage issue when you are in one particular community. They are looking at pushing back out in the next budget.

Mayor Chambers: We also have an issue with staff attraction. If you say that this job is attached to here, if you attach a job to there, and, say, if we are attracting from within the region, you might be two hours from there. If you attract from outside the region, that may not be the town that they want to live in. You have to start thinking about all of those kinds of things as well.

Ms LEAHY: It will be interesting how this other one progresses in terms of moving back out. They are also moving that local decision-making back out. The central decision-making that occurs in that central area will move back out to those regional towns. It will be interesting to see how it goes.

Mayor Chambers: Let me know.

Ms LEAHY: Read the paper.

Mrs LAUGA: I have a question about local procurement because procurement is part of this inquiry as well. Does council use Local Buy, do you have your own preferred supplier panels, what are the ways in which council procures goods and services?

Mr Pitt: It is a smorgasbord. We use Local Buy and have our own panels. We have a fairly comprehensive procurement policy. We definitely have local business incentive, five and 10 per cent, depending on the value of the contract. We use a range of different procurement methods.

Mrs LAUGA: Do you have any overlap where there is Local Buy supplier panels but also your own supplier panels? How do you choose which one to use?

Mr Pitt: It really is best fit. We make an assessment of our need and decide whether we want to go down the Local Buy path. This is probably a roundabout way to answer you, but there has been a positive of the floods over the years. We do not have a market for large contractors to come out and do our civil works. The 2013 event was different because of the scale, but normally a lot of our civil works might be \$100,000 or \$50,000 or \$200,000. The big boys just will not come over the range. It is not worth their trouble to tender and come out. After 2010-11, we decided to work actively with local contractors to find a procurement method so that we could use them and develop their skills. A couple of those companies are now doing contract work with Main Roads and have developed up to the standard. We have developed a local market. There is a procurement panel with Local Buy for civil work contractors, but we do not use that unless it is a scale issue. We have our own procurement panels which the local guys get a go on and they get a lot of local work. It works very well.

Mrs LAUGA: I get complaints all the time from constituents in my area who say that they are on both the Local Buy panels and the local government procurement panels and that it takes a lot of time to submit to those panels. Essentially, those two panels are duplicates or replicates of each other, so they feel like there is overlap in the time that they take to make submissions to the panels. They go to all this effort to make submissions but never get any work out of it. There is a feeling that, especially in that level of work where you do not have to go to tender and council might choose three suppliers from the panel and ask for a quote, there are officers who constantly pick only their three favourites. What oversight does council have to stop that from happening to ensure that everyone gets the opportunity to tender fairly for projects?

Mr Pitt: There are a range of questions in there. I thought you may have raised it with the Audit Office. Where we did get not into bother but where the Audit Office had a slightly different interpretation of the legislation I will explain. I will pick on concreting. I will come back to the others, but this is a really good micro example. There are limited contractors for concreting in our area. We have now developed our own panel as well because we would go out and get quotes. The water and sewerage boys had a job to do so they spent \$30,000 with him. The roads guys had a bit of guttering to do, so they spent \$100,000 with him. Another section of council had some work so they went to quote, and he got a job for \$50,000. Over the 12 months, collectively different sections of the organisation passed the tender threshold. The Audit Office said, 'Okay, you should be going to tender for this.' We did a procurement process and got quotes every time, but it was cumulative over the 12 months. Even though there was not a single contract, we used the same supplier. Effectively, we got chipped. Now we are putting those guys through an extra procurement process to ensure that we are compliant to tick the box. It makes no identifiable difference to who we use or how we use them, but we are just extra cautious with our procurement.

Going back to Local Buy, it is under legislation and is still there and is useable. Sometimes the local contractors will not go on to it, but others will. It is a time-consuming process for us. We want good governance and to make sure everything is done correctly. With our own panel, it is a topic of conversation. You hear that complaint periodically, but thankfully not that often. We have an oversight

process where we have a base. If it is our on panel, not so much the Local Buy panel, we know what their rate is that they submit through the tender process. Periodically we will go back to them and say, 'Okay, quote on a specific job.' Then we see whether they will do it at a different rate, not more than. We will try and give everyone on that panel at least a job during the year. Again, another good thing that has come out of the QRA process is the value for money criteria. We make an assessment of value for money against each of the different contractors. Normally if they are not getting work it is because of their cost or their workplace health and safety. There is a reason and that can be clearly explained. It does not make some of them happy that there is a reason, but there is a reason some get more work than others. Normally, if they are on the panel most of them will get a gig each year.

Mrs LAUGA: What happens if a new business comes into the area or starts up during the panel's term? Sometimes these panels can go for five years or more. If someone comes in halfway through, people tell me that they are not allowed to get onto the panel and therefore they cannot get any work. How does that work in your council?

Mr Pitt: For our local panels we rarely would go over two years, and there is a good reason for that. We love new businesses; they would be welcomed with open arms. We got caught with one of these a couple of years ago. There was no mechanism in the original tender to add someone on, which was an oversight. Now we allow late submissions because of circumstances. That submission is then assessed and taken back to full council, and there is a full council resolution to add them to the panel.

CHAIR: Looking through your submission, on page 2 you state—

As a Council we are required to produce long term financial plans yet revenue streams that are controlled by State and Federal Government continually change.

We have heard that before. Do you have any ideas as to how to fix it?

Mr Pitt: Consistency. We are more than happy for you to have exhibit A, our history of FAGs since 2001-02 with the individual shires added together. Whilst we have increased two per cent on average over the period of time per year, if you look at the funding every year—we do not know what next year's FAG is until generally May or June—we have dropped in some years 11 per cent, five per cent, six per cent and then in other years the following year they have gone up six per cent and the next year they have gone up 15 per cent. I understand the Commonwealth-to-state methodology process, but in my opinion there is not one aspect of consistency in the grant program. It would be really handy if they even said it is only going to go up one per cent just so we could have consistency for budgeting. If we have to have a five-year financial plan and they say, 'For the next five years your FAGs are going to be X,' that is sweet. We can deal with that; we can work with it. It is just the year-in, year-out change. Some of the rationale as to why it has gone up and down is just mind-boggling.

CHAIR: Would you like to table that?

Mr Pitt: I would love to.

CHAIR: Leave is granted.

Mayor Chambers: I have another example, Mr Chair. The federal government announced an increase in R to R funding in the budget. We were quite excited for a period of time—about two hours—until we found out that the money that was available to use in year 4 had just been moved from year 5 to year 4 with no guarantee of what we were going to get in year 5. For a council such as ours, we have to have a discussion about what we do with that money knowing that we can hold it over until year 5. Off our own bat we have elected to keep a proportion of that funding still in year 5 because we do not want to be in a situation where our workforce is at risk because of a lack of funding. If we could just get stability and consistency in funding, our workforce would be secure; we would understand what we need to do in order to make adjustments over the next five to 10 years; and we perhaps would not be in a situation where we have to make quite fast decisions at the end of each state and federal budget cycle as well.

CHAIR: It seems quite appalling to me that bureaucrats cannot get their heads around that problem, because it is a problem. I can see where you are coming from.

Mayor Chambers: If you are asking for a solution, in local government we have to go with five- and 10-year plans. Surely the state has five- and 10-year plans so they know what they have to expend money on. If they do not, why not? There should be consistency at a baseline level so that you know you will get this amount. If you get more that is great, but it will not drop under that.

CHAIR: I would say that every council has raised that issue. When you talk about financial management 10-year plans and asset management 10-year plans, for the benefit of our audience and people who read *Hansard* and have an interest, can you step us through how a 10-year plan works?

Ms Benham: Are you talking about the construction of our 10-year plans with the budget?

CHAIR: Is it the case that with a 10-year plan you decide on it today and you do not go anywhere near it for the next 10 years, or do you keep revisiting it?

Ms Benham: We use the QTC model for our 10-year planning. Each year we do the assumptions based on our 10-year plan based on what the council's direction is with regard to that. We reassess that fully every year when we are redoing the next year's model and every quarter if there is some assumption that has changed at a quarterly review that impacts on the 10-year cycle.

Mayor Chambers: Further to that, that is what we have identified to move forward. We have a very comprehensive water and wastewater 10-year plan that automatically feeds into our financials every year. That is not actually questioned. That rolls out, that is there, and we know that we have all the assumptions behind it. It is updated every year. It sticks pretty true to form every year. I have said to council that that is what is going to happen in every department. This year at budget I said, 'I do not want to keep doing this.' I do not want to keep coming to a budget and discussing what we should do. It should all be laid out before us. Seriously, the only decisions we should make at budget time are this many. For the rest of it you will know how much you need to spend. You will have your intervention levels set. Those intervention levels will be based on data that we have collected. It is a cycle. Come and see us in a year and see what a year's worth of absolute investment in asset management plans has achieved and how that feeds into the financials.

CHAIR: Two or three years into a 10-year plan do we still have a 10-year plan or is it a seven-year plan? People have trouble understanding that.

Mr Pitt: That is true. Since 2010 we have been running on a 10-year plan. There was a change of council and there was a new corporate plan adopted. Now that 10-year plan is being reset. We have run about seven years on the current methodology. That 10-year plan saw two corporate plans come and go underneath it. Its primary message was simple: fix the budget. That was the overarching driver of the entire organisation. Now we have reached the point of expansion. With the adoption of a new corporate plan, last week council created a new general manager position which will be for strategy, innovation and assets. We are about to engage our staff on a three-month consultation about what the new organisation should look like, and it will be genuine consultation. They will actually have an opportunity to input into where it goes and what it does. We are resetting the 10-year plan now this year. We have already populated the QTC model, but certainly this year there will be a resetting of the longer-term vision again as to where we go.

CHAIR: Why do we have 10-year plans?

Mr Pitt: That is a good question. The corporate plan is five years. The need for the community plan was taken out of the legislation, so we do not have a 20-year plan anymore unless you want one. In its purest sense it at least gives a consistency approach for the financial and asset arm as to where we are going with what those key fundamentals are over a longer period of time, so it cedes to the life of two corporate plans. I would say that it should rightly be subservient to the elected council and its corporate plan, so at the end of the day if there is a new corporate plan adopted it is the operation arm's requirement to reassess the 10-year plan and then put it into line with the council's objectives.

CHAIR: Do you think that incoming councils realise the importance of 10-year plans? Do you have to go through a lot of work to convince them that that is the way they have to go?

Mayor Chambers: I will defer to my opening statement. Councillors have varying reasons to come on council. Councillors have varying experience and understanding. At the moment there is nothing to support that; that is, if you do not come in with a strategic mindset, there is nothing to change that or lead a change in that. Mr Chair, you asked before whether it is necessary to have a 10-year plan. We are making decisions every day with 20-, 50- and 100-year assets, so I would say yes. Further to that, I would say that 20-year visions and those kinds of things—if I may be so bold—are what is really lacking in politics itself with its term based mentality. I think the only way to do it is to have a really solid foundation as to why you are making the decisions that cannot be challenged by any elected member who comes in after you, which is a conversation that the CEO and CFO had with me this morning. That is fraught with challenges itself because we are always trying to manage the hopes and desires of the community and our financial sustainability, but I think that there is a bit of work to do in that realm.

I would also like to say that we have lost millions of dollars because of RoadTek crews. We have to bear the brunt of that. Talking about own source income, when the viability clause was in there we used to have a stream of own source income which has been taken away.

CHAIR: We have just about run out of time. Thank you very much for your contribution.

ERBS, Mr Murray, President, South-East Queensland Branch, Institute Of Public Works Engineering Australasia; Chair, NAMS Australia

GILLARD, Mr Ken, Joint Deputy President, Queensland Division, Engineers Australia

RAWLINGS, Ms Stacey, Manager, Queensland Division, Engineers Australia

CHAIR: Do you have an opening statement?

Mr Erbs: There are two opening statements. If I may start, Mr Chairman, I will give a brief background on myself and the key points that we want to make. I have had 30 years of experience in local government across three states and five councils. I retired from the Redland City Council in January. My experience is in city, urban and rural and regional councils, in places such as Moree and Glen Innes in New South Wales, as well as the Redlands city for the past six years here in Brisbane. I am an RPQ civil engineer. I have the role with the Institute of Public Works Engineering Australasia. Most people probably do not know what the acronym NAMS means, but it is the National Asset Management Strategy for sustainability of local government, which this discussion is about. A key part of that is asset management, which I consider to be one of the four pillars of sustainability of local government. It starts at the base with the community and what the community's service needs and functions are. We need to have financial sustainability, which is a core part of this inquiry. The community does not want to get any shocks in the rates that they pay. They also do not want any shocks in the infrastructure that they have. They really want it to be looked after as if it were their own backyard, I think. I want to know what is in my backyard at home and I want to know how to manage it, handle it and keep it sustainable. I think the community wants us to do that with the stewardship of their local government areas.

The fourth pillar facing us is growth, particularly in South-East Queensland with development coming on board. We need to balance that. In other parts of Queensland, development growth may not be the need; it may be just holding what you have and maybe even simplifying going on in some areas. I see the link between all of those things is asset management plans, which balance the service levels, the financials and the infrastructure that you need in place. A key part of a financial management plan or an asset management plan is having the expertise and the knowledge in the preparation of that plan, so that we can get the best value possible out of the assets that we have and that we do not bring on assets that we cannot afford in the future.

I am representing the Queensland Branch of IPWEA as a registered professional engineer. I will not hold back from saying that I think engineers are probably the best equipped people to provide that advice. The IPWEA as an organisation has undertaken a lot of work in producing manuals and supporting practice notes to assist its members to carry out that task. You may or may not be aware that the International Infrastructure Asset Management Manual has been produced. It is Australasian. It is a joint venture between New Zealand and Australia. It has been adopted in Canada. We are promoting best practice through documents like that and we will continue to do so. Part of my challenge in the future as chair of NAMS is to take forward the carriage of that.

A key part of what our submission is about is really having that engineering advice at the decision-making table. We want to see it. We think that the people who make the final decision, whether it is a council or the community, should be getting that advice firsthand and not having it filtered through other means. A key message that I want to leave with you today is that I believe that the engineering advice—the asset management advice, really—needs to come firsthand to the people who make the final decision. Mr Chair, I might leave it at that and take questions.

CHAIR: Thank you very much. Moree was my old hometown. I hope you left it in a good state.

Mr Erbs: I hope I did.

Mr Gillard: I will hand over to Stacey to make the opening statement.

Ms Rawlings: I am going to keep our statement really short. Ken will be our predominant question answerer throughout this. Ken has recently retired from principal transport services of Aurecon and has been working in that space for 30-odd years, along with Murray. He can provide a lot of the history, the technical knowhow, the examples that have happened and his experiences in dealing with local councils and delivery agencies in the infrastructure space.

Really, we support all of the comments that Murray made. We stand by those same principles. The key thing we will pick up on is that, at least since 2005 when we produced a document called *Government as an informed buyer*, we have been advocating for the same things that Murray was talking about: having engineers at the decision-making table to ensure that, in the procurement space

and in the delivery and asset maintenance space, they are providing the right technical advice and policy influence to get those good decisions that have a longer-term impact and contribute to the planning conversation. I think our submission covers off on everything else. The key point we want to make is about having an informed engineer at the decision-making table. We are here and keen to take any questions.

CHAIR: When you say 'sitting at the decision-making table', is that at the local government level or at state and local government discussions?

Mr Erbs: Wherever the decision is being made. If we come back to local government, which I am particularly talking about as part of IPWEA, because we consider ourselves to be the peak for local government engineering, I think it is important that an RPEQ engineer be present in the council chamber when those discussions are being carried out. What I have observed over the years, with the corporatisation of local government, is that with the executive leadership team in a lot of cases—it has a number of different names in different places; it could be the management executive or the executive leadership team—there is no longer a requirement for an RPEQ engineer to be there. The council may employ engineers down the ranks who are making recommendations, but it is going through a filtering process before it gets to the ultimate decision-maker, which is the council. If you do wind back the clock, the engineer was sitting at that table offering that advice.

It is really about getting engineers in a position where they can offer the advice frankly, openly and honestly, and it is heard and the final decision-makers make their decision understanding the risks, the costs and the full range of issues that are presented to them. However, if there is a filtering process with a layer of management, I have concerns about that.

Mr Gillard: Can I add to that, the state of Queensland has developed a board of professional engineers to oversee engineering applications. Anything engineering wise, any infrastructure, must be signed off by a registered professional engineer. That does not just include the construction of engineering; it includes all planning and development of processes. There is a worry in the engineering fraternity that the RPEQs are not being seen enough in local government and the agencies in state government. An issue that we have is that a lot of the decisions are being made by nonengineers against the direction of the government through the Board of Professional Engineers, through the act.

An example that I have seen recently, probably five years ago now, was when we were doing the NDRRA out in the west and there was a lot of development of road structure by Main Roads and the consultants working there. However, when it came to Maranoa, for example, they had a big input from Santos, which was doing the gasworks. Santos was required to do a lot of infrastructure that had been planned, but the local authority was demanding that they build to a certain standard, which was well beyond the needs of the roads. Santos ended up building about half the infrastructure that Maranoa should have been able to get, because they were paying \$3 million per kilometre for rural roads when they should have been paying \$1 million per kilometre. Those decisions were being made in council based on 'we shall use the Bible'—

CHAIR: The higher standard.

Mr Gillard:—'of the higher standard', and they did not need the higher standard. They would have got a lot more infrastructure from the input of Santos if they had engineers advising them that they could go to an as-needs basis, but that did not occur. I must point out that since that time Maranoa has employed an ex-Main Roads engineer. I do not think he sits on the executive, but he is very highly regarded in the council.

CHAIR: In the Redland City Council, how and when was the operating advisory panel established, how does it operate and what benefits does it provide to procurement and financial sustainability?

Mr Erbs: The Redland City Council set up the COAP, as we call it, about 18 months to two years ago. It was developed out of the model that the Mackay council has utilised. Mackay still operates with an advisory panel. It has a slightly different name, but it has the same purpose. I will talk about Mackay, because I think it is relevant in the first instance and I will finish with the Redlands.

Mackay's panel was established in response to the drop in the mining boom. They had priority infrastructure plans in place and all of the capital programs prepared to build infrastructure for the people who were going to come. However, after the mining boom those people did not come, so they needed to cull through the programs and bring them back to what was realistically needed in the foreseeable future post the mining boom. The advisory panel was set up to deal with the culling of the large capital works program they had in place.

The Redlands has a slightly different model in that they have a panel across all their asset classes established. It is very much in its early stages, in that it was only set up 12 to 18 months ago. It went through its first iteration of the capital works program last year. It is very much a work in progress. It has just undertaken a major review in the past couple of months. They have come back and are rethinking about how it will continue forward. The learnings of the panel are that you need to have good foundation blocks in place to run a capital operation advisory panel. You need good terms of reference and good governance around the whole structure that you set up. That is still being developed and learnt at Redlands at the moment.

I guess my summary of it is I believe that advisory panels have a role and have a place as they did in Mackay, and they may have a place in other areas too, but they are not necessarily a one-size-fits-all solution. I think they are a valuable tool and should be considered, but each authority probably should look at their own circumstances in relation to whether they need an advisory panel in the first place. If you have not got massive growth going on or you have not got big capital programs, you wonder about the need for an advisory panel. In South-East Queensland where you have that growth and other things happening and some of our regional areas like Mackay and possibly Townsville and Cairns you may get good value out of them. It is an independent panel that has been set up at Redlands made up of four people. They meet three or four times a year. They go through the capital and operational program to cull down and look at all of the bids that have come forward.

In the first year of iteration they looked at all of the bids that came forward, so there were something like 250 submissions sitting in front of them and they worked through whether there were business cases or not for all of those 250 bids. That was a mammoth task to resource internally and to provide that information and I think it was a mammoth task on the COAP members to try and distil and sift through that information. My understanding—and I did retire from Redlands in January—is that in the last three or four months they have scaled that back and said, 'All of these groups of projects or operational programs are exempt from the COAP process.' They have brought it back and said, 'These are the ones that need that closer scrutiny.' The senior staff effectively do the first sifting through and what comes out of that goes to the COAP to consider and have that discussion with the people who put the projects forward.

From my observation at Redlands, in the first iteration, as I said, all projects went up. Projects for the canal estates at Redlands went up. The canal estates are managed through special levies. They have their own asset management plans. They have lots of community consultation about whether the projects go in or not and the funding of those projects comes from those canal estates. I do not see COAP has a role in scrutinising those projects because the community have scrutinised those projects. I think a COAP is more about scrutinising the general fund projects or the priority infrastructure projects from the developer charges.

CHAIR: Just listening to you talk then and having very little experience with regard to the work you do, I might come to you as a new accountant and say, 'What do we need this mob for?' Can you tell me the importance of the role that you play?

Mr Erbs: Of COAP?

CHAIR: Of your organisation being involved with local government. If they have their own engineer, there would be no role for you guys to play, would there? That is what I am having trouble understanding.

Mr Erbs: With COAP?

Ms Rawlings: No, us as organisations?

CHAIR: Yes.

Ms Rawlings: We represent the broader community. IPWEAQ represent the public works engineers. Engineers Australia represent all engineers across Australia. We are supporting the importance of their place at the table. We do not go in and work specifically with a council.

CHAIR: Okay; I misunderstood.

Ms Rawlings: The IPWEA may in certain instances because of some of the work that they do and some of the documents that they produce.

CHAIR: I misunderstood. My apologies.

Ms Rawlings: Yes, but we are not employed by council. We do not have a role to play in that.

CHAIR: You do not do any contracting or anything like that?

Ms Rawlings: No.

Mr Erbs: No, and neither does IPWEAQ. There is no direct contract work. We do some training.

Ms Rawlings: Yes, same. Our role to play is definitely in that continuing professional development space and ensuring that engineers meet that. Both of us as associations are pathways to becoming registered. With regard to the board that Ken was talking about, we are the assessment body for that so we ensure the standard of engineers is upheld.

CHAIR: Does that, at the end of the day, contribute to the financial sustainability of local government?

Ms Rawlings: Absolutely, so having the right competent skills set in the right place at the right time assessing the right projects, yes.

CHAIR: Okay. My apology for the misunderstanding. Ann, do you understand it?

Ms LEAHY: Yes, actually. I have had a bit of experience with engineers over the years.

Mr Gillard: Good ones I hope.

Ms LEAHY: Absolutely! They are all good ones, aren't they? Mr Gillard made mention of some roads in the Maranoa Regional Council. There was some funding provided by a resources company and the council wanted a particular specification and the money does not go as far if you build to various different specifications. Could you perhaps just refresh me on which particular roads you were referring to?

Mr Gillard: No, I cannot remember the names of the roads. No, I really cannot remember the names. It was quite a while ago now. There were a couple of roads there where they had built a 25-kilometre section of one road. No, I cannot remember exactly the names.

Ms Rawlings: We can come back to you and see if we can find them in a fashion.

Ms LEAHY: Maybe I might be able to fill you in with a little bit of information and perhaps why the council and also the ratepayers were probably a little bit cautious. There was a particular argument over Fairview Road and Injune Taroom Road, which I think were the two—

Mr Gillard: Yes, Fairview I think was the one.

Ms LEAHY: Yes, Fairview was the one. However, probably what you might not have been aware of is in relation to how the specifications were actually done by the contractor. There was a particular road done out to a place called the hub which was a beautiful two-lane highway as good as the Warrego Highway. The specification was unfortunately done overseas and that road proceeded to fail, and this does come to the long-term financial sustainability of the council and the costs on their ratepayers as well. If you have a specification—and this is probably where it comes back to Australian standards and how some of these things are done—and the road fails when it is done by another agency, then the ratepayers have to pick up the bill to fix that. I am defending my council and the ratepayers in my area because I live at Roma, so I know these rather well and the long-term financial sustainability of the council would have perhaps been compromised.

Ms Rawlings: I suppose our point in terms of that process is I would question whether council had the right people in-house to assess that initial scoping and specifications to understand and be able to provide those questions and feedback. That would be the question that we would probably put to you. It may have happened overseas, but I do not know the circumstances.

Mr Gillard: It did happen. The designs were done overseas. That was the problem. A quick example was that the specification required a certain type of gravel to be provided and that gravel had to come from Dalby. They had to cart the gravel from Dalby whereas with the NDRRA works that we were doing we sourced local gravels at about 20 per cent of the cost that were satisfactory because an engineer was able to assess those gravels and make them work. The specification for Fairview Road was made by adhering to the needs of the specification and the gravel had to be brought from Dalby. It could not have been got any closer, and that is a long haul from Dalby out to Roma.

Ms LEAHY: I am surprised to hear that from you because the resource company have a principal contractor who then has a subcontractor and I actually helped that subcontractor alleviate that issue in helping them get their DA through so they could get that gravel locally.

Mr Gillard: Yes, that was probably after we got involved. Santos came to me and asked if we could provide some assistance against the work that was designed overseas and we scrutinised the work from overseas and made any suggestions on where they could get it from.

Ms LEAHY: Yes. Some of the problems that occurred with that were in relation to the principal contractor not knowing where to source the material. My understanding—and I could check this from my dealings with the subcontractor to the principal contractor—was that they did get that because I

helped to get that DA through with the Coordinator-General at the time. We did get around that because I know how many tonnes were going to come from Dalby, so thank you for working through that so that we could clear that up.

Mrs LAUGA: My first question is about how we can improve the experience and capacity of engineering in rural and regional Queensland. One of the things that councils talked to us about is the difficulty in attracting qualified staff into the regions. If engineers play such a significant role in the delivery of projects and efficiency in local government—and one of the problems that councils face is attracting those skilled staff to the regions and to rural places—how can we match solutions to those two problems to get better outcomes?

Mr Gillard: I think one of them is for engineers to have autonomy. Working in a rural environment as an engineer is an exciting place to work because you get a lot more exposure to different aspects. An engineer who has done time out in the rural areas will have far more practical knowledge than an engineer who has sat in an office in Brisbane and worked as a bridge designer or something like that for 15 years. To entice more out there we have to highlight the excitement and the development in their career path by being out there, but they need to have the autonomy to make decisions and become a good engineer by using their good engineering practice.

Mr Erbs: It is about career paths. The question you ask is a very good one and it has been one that has been asked for many years. Working in places that I have worked like Moree, Warren in central New South Wales and even Glen Innes, trying to get the qualified engineering staff out to those areas has been a major challenge for many years. At Moree we tried homegrowing them. At the time I was at Moree we worked with the University of New England at Armidale to set up an engineering course and create cadetships where we could bring young people straight into council at the end of year 12 and help them get their engineering qualifications through UNE out the other end. The theory was that they would get pretty attached to the town and once they were qualified that attachment would hold them around there. If they did move on to another rural or regional area and understood the benefits of rural and regional areas, that was not a loss if other towns and regional areas are doing the same sort of training and we can swap. That was no problem. That was the attitude we had at Moree.

Again, I think it is a suite of tools that needs to be put in place for it to happen. You need to do the sorts of things I was talking about, but I think you also need to do the things that Ken was talking about in terms of giving them empowerment and giving them authority. Once upon a time it used to be that to be a city engineer you went and did your time out in the bush as a shire engineer and got your experience sitting at a council table going through those meetings dealing with those issues. I think some of the changes that have occurred have removed that particular incentive for young professionals and they leave the bush areas. They come to Brisbane or go to Sydney or wherever, they get their qualification and they go off and work for whomever and they do not naturally return back to where they came from. It is really hard to say it is just one thing. I think it is a suite of things that need to be put in place to make that happen.

Ms Rawlings: The market is a big factor too. There has been a shift in the market. At the moment the big civil jobs are all happening down in Sydney and Melbourne, so that drive for the dollars down south makes it even more difficult for regional areas in particular to attract and keep people. Consistency of workflow in the state is an important factor, trying to ensure that there is a consistent horizon of planned activities so that everybody knows there is enough to keep them and their families in a region.

The other thing is that we have a role to play. Our local groups and our local engineers are constantly linking with the university sector and those going through to try and make sure that they have those industry connections who might get them jobs to keep them there. Over the last 10 or 20 years—these gentlemen probably have a better idea of the time frame—there has been a lot more outsourcing from both local and state governments of engineering services, so that cadetship structure and building it in-house has dropped away a lot. A little bit is coming back, but it was gone; therefore, people are out in the private market. They are then much more mobile and they are going everywhere. Having a full career path and that built in-house skill set would go a long way to helping that.

Mr Erbs: That is right. A key part of Engineers Australia and IPWEA is working with our regions. IPWEA in Queensland has four regions: south-west, south-east, central and northern. I am the branch president of the south-east area, but there are presidents of the other regions and they try and foster exactly what Stacey was talking about. Our role at IPWEA is to try and provide support for the professional development for those young people. If you have a look at something like the *International Infrastructure Management Manual*, it is a big document but there are lots of practice

notes that sit behind that that are available for those young engineers to learn about what public works and local government engineering is all about. They can look at how to go about doing the condition assessment of a road; how to do an inspection of a bridge; how to go about valuing a road. Our prime purpose as peak bodies is to provide that sort of support and picking up on the experience of Ken and myself—maybe not so much our brains—to try and pass on what we have learned over the years.

Mrs LAUGA: Do you have a requirement to undertake work in rural and regional Queensland?

Ms Rawlings: No, we are not like doctors, teachers or dentists, who may or may not still have those sorts of programs.

Mrs LAUGA: An example of where better engineering could have been very helpful to the council's bottom line is the project at Cooktown. The foreshore development has been stalled for years with all sorts of engineering problems over time. I do not think you would see the same issues if the project were in Brisbane, where you have the experience and expertise right here to get those problems solved very quickly and a lot cheaper. Cooktown has had to spend a lot of extra money on that project.

Ms Rawlings: Smaller councils are definitely more challenged.

Mrs LAUGA: My next question is on a different angle: local procurement. Procurement is part of the scope of this hearing. Consultant engineers submit to local governments for work and consultants obviously submit for panels across the state. What are your members' experience with local government procurement and Local Buy?

Mr Gillard: Local Buy is a bit of an issue.

Ms Rawlings: I think wide and varied. Panels can work. The challenge of getting on the panel and the effort of getting on a panel can be quite onerous and arduous for the consultants; however, once they are on, the ability to be procured under a panel is sometimes easier. That is a good thing. The challenge still comes down to getting the right project brief. Scoping a project is probably one of the biggest issues, so that becomes probably more of a challenge. Panels can work or not, but it comes down to how they are used and the people who are helping to write the scope and putting the brief through. That is where we would say that they have to have the right level of skill set in their engineering space and not pass that job down to the person with the least experience, because then you will get a scope that is not fit for purpose or not asking for what you want and need. Therefore, you will end up with situations where you get the wrong specifications or you overspecify. The engineering profession then gets a lot of grief for overengineering, but they are almost contractually obliged to overengineer because they have to meet their contractual obligations. Getting that balance right is the big challenge. There are pockets of excellence where you will get the right person in the right organisation that puts out a great scope and then it happens well. You will also get the exact opposite.

Mr Gillard: Briefing for projects or consultancy work has been an issue for a long time, and obviously it has been the cause of a lot of variation in contracts because what the purchaser really needs or really wants has not been specified in the brief. A project has been done that does not deliver what the purchaser really wants.

Ms Rawlings: The process is often possibly not flexible enough to allow that input back in to say, 'But we could do this for you and give you a better outcome'. It is quite a rigid process so you are stuck with delivering that. We often get anecdotal feedback from our members, and I do not have anything specific on this. However, there is a report that Consult Australia put out around the cost of procurement that you could refer to. They are not my current organisation, but I have worked for them in the past. The lowest cost is an easy measure. The weighting systems that are used in procurement often drive that to be the biggest component, and it really does have a massive impact on the final decision. That is what happens, so that scope is then played out and then there will often have to be a rework back later down the track. It might not be caught up in that initial assessment of the construction costs et cetera, but when you are looking at the whole of life—maintenance and ongoing—there is a big impact there.

Mr Gillard: The term 'value for money' is taken quite often to mean the cheapest price. From an engineering point of view, value for money cost is a part of the equation. The management of the asset in the future has a huge impact on procurement, and getting the right value is writing the right brief. In the late 1990s I worked with Main Roads to basically develop a brief for consultants, and we ended up with a pretty good document. Briefing was core to that.

Mr Erbs: I think one of the challenges we have with procurement is that if we can go down a collaborative path with the supplier and the procurer, we end up with better results than if we come at it from an adversarial point of view. The other major issue that impacted on me in procurement in local government is that it takes time to put the brief together. It takes time to go through the procurement process, but the money has to be spent by 30 June. It is the cash flow. The council adopts its budget on 28, 29 or 30 June. Until then you technically have no supply so you cannot go and engage anybody.

On 1 July we have money in our budget so we can go through the procurement process. That procurement process then takes two, three or four months subject to the contractor being available. You have to work your butt off to get it started before Christmas, and that might be for a \$30 million or \$50 million capital program. That means it always has to be delivered post-Christmas before 30 June because the accountants are on your back to get it all acquitted. That very time frame of procurement and delivery of a capital program in a single fiscal year has a major impact and causes major costs and inefficiencies. That is a process I think we all have to try and work to resolve, with longer capital programs and longer operational programs and procurement processes that can actually balance that through. I think there are some real opportunities for efficiency gains just by taking a sensible approach to it and not being caught up by Treasury saying, 'The money has to be spent by 30 June.'

Mr Gillard: There is a strong need for these infrastructure planning documents. The State Infrastructure Plan has been done but they are doing the local ones now. It is very important that the planning be done into the future and not just a three-year plan or four-year plan. We need plans that will highlight needs for the next 15 years and then they can be worked down. You can identify your needs and your budgeting based on those needs as they occur.

Mrs LAUGA: I hear you. You are talking to a town-planner.

Mr Gillard: That is what we need. We need more involvement.

Ms Rawlings: And community owned plans that survive a political cycle.

Mr Gillard: We have been pushing for 15- to 20-year infrastructure plans that are real and can be accommodated by all levels of government, not just the one. The state government infrastructure plan has to accommodate local authorities; then the workload can be identified; then you can get your engineers and people that you need in the local areas to do the work because they can see a future.

Mr CRAWFORD: You briefly touched on small councils before, but what about the small councils—particularly the Indigenous councils on the cape—that clearly do not have any financial capacity to bring on an engineer full-time? They may only deal with very minimal capital works projects, but they still do get them so they still will build a sewage treatment plant or something like that. What is the answer there?

Ms Rawlings: We are supportive of the Chief Engineer of the Department of Infrastructure, Local Government and Planning who was appointed just last year, so we believe that role has a part to play in helping those councils deliver on their needs. These gentlemen may have some other views and suggestions on other things for the smaller councils, but we think that is a very important role with helping with the grant process and being able to have the right skill sets to deliver on the work. Delivering on the funding that has been provided to them has been a challenge in years gone past.

Mr Gillard: The consultants usually provide an engineer to take on the role of the shire engineer in those smaller authorities. I know Brandons, for example, does three local authorities out in the west and they act as the shire engineer. I think it needs the overview, as Stacey pointed out, from the chief engineer to maintain that they are relevant and undertaking the right sort of processes. I do not think those consultant roles involve the budgeting and spending regime; it is really just the doing. I think there needs to be more involvement with the chief engineer through these consultants to manage the needs of those authorities.

Ms Rawlings: The prioritisation and application.

Mr Gillard: I think there needs to be an overview of those consultants handling the local authority areas.

Mr Erbs: I would support that where the councils are so small that logistically it would be a massive impost for them to employ one person when they have only one big project for the next three years or they have a lot of little projects that come and go. There is a consultant marketplace in regional Queensland that does service that space, but I think it is the governance over those consultants that needs to be in place. I think the state has a responsibility there or could provide the answer for that through that chief engineer.

Mr PERRETT: Thank you for being here today to let us know your thoughts around some of the challenges that you see. I want to bring you to one of those challenges. In the Engineers Australia report to this committee, under the heading 'Infrastructure asset life cycles', it states—

Up to 50 per cent of Queensland councils are recording operating deficits and long term forecasts show that councils will be required to manage more assets that will be rapidly approaching the end of their life cycles. This means that ensuring their maintenance and replacement with newer assets will be critical for councils to manage their own investments and financial sustainability.

It further states—

Managing whole of life cycle costs of infrastructure assets should be a primary, rather than a secondary, focus of councils dealing with their assets.

In your view, why have councils been very good at building assets but not so good at planning for the day that they require replacement?

Mr Gillard: That runs into Murray's area and what he is promoting as asset management.

Mr Erbs: That is right. In Australia, massive development went on in the 1960s and 1970s with sewerage infrastructure and roads being built and sealed. Of course, 40 or 50 years later we are starting to see the time for rehabilitation and renewal of those assets. Asset management allows us to analyse that and try to do it efficiently. However, what has caused the problem is the history of that development. If you go by the depreciation books, road pavements originally would have been designed with nominally a 30-year design life, but it has gone on for 50 years. It is still there and is still working somewhat, depending on how the individual council or engineer managed it. If they continued to put the resurfacing on at appropriate stages, they have preserved the pavement underneath. If the council for some reason has not funded the resurfacing, then the pavement can be falling apart. Water is the biggest enemy of any pavement. With good management, painting the house every 10 years and keeping the timber dry, you can keep that timber house in good order for a couple of hundred years. However, if you do not put the paint on every 10 years, you will say goodbye to it after 30.

Asset management is about getting a handle on that, so that we are making proper decisions about what can continue and keep going into the future and what we can defer spending on, rather than just following the rules hard and fast and saying, 'It's been 30 years, so rip it up, throw it out and put the new stuff down.' We cannot afford to do that. We need to have a more balanced approach.

In Australia, I think asset management has been around forever, but it has only really been documented and put in place since about 2000, when we became aware of the needs with this ageing infrastructure, particularly with some of the more hidden things such as water supply pipes and some of the products that were put in back in the 1950s and 1960s that we thought were safe at the time, but are not so safe and are suffering failures. We talk about roads, but really some of the other major infrastructure in water supply and sewerage probably are not reaching their age and their life. We are developing techniques to prolong their lives, too. Relining and other things have come on to try to get through that.

It is a process. There is no hard and fast rule. What we need is expertise and knowledge to be shared and passed around, so that we can get the most possible out of the life of the assets we have, and also stop making silly decisions about putting something in that is untried and untested, and then cut it. Would you ever want to repeat asbestos pipe laying? Millions and billions of dollars worth of pipes have been put into the ground that really have to come out. They have to come out. Some of them are actually still putting water through. We put that product in. We do not want to repeat that. The nation does not want to repeat that. We need to have a good understanding of what we are doing, when we are doing it and make the most of what we have.

Mr PERRETT: Have government funding processes encouraged some of the challenges that local government has? For example, there is a grant available for what is often referred to around this table as a shiny new project. Council says, 'Great, we're going to grab that', whatever that shiny new project may be, without fully understanding the whole-of-life cost. I think that dovetails into the comment about the primary concern rather than the secondary.

Mr Erbs: I think there are a number of cases where that has happened and probably will continue to happen because of community expectations, political expectations and opportunism that goes on at the time. I think we are starting to mature more as a nation about some of that spending and what has happened in the past and whether it continues to happen in the future at the same rate. We need to slow it down. That is where I think we are going through and we need to continue to go through a process of cultural change.

As an engineer for over 30 years, I have come out of a construction phase in my life to a maintenance phase in my life. Maintenance is the key part of what engineers need to do now. I have been through councils where I have sold the last scraper and I sold the last grader at Redlands, but we have patching trucks and we have other equipment coming in to look after what we have. As the engineering profession we have moved through that, but the community still likes to see something bright and shiny and new. We all do. We all like a new car.

Ms Rawlings: Maintenance is not sexy. You are not going to be cutting a ribbon on maintenance.

CHAIR: It depends on how old you are.

Ms Rawlings: Apparently.

Mr PERRETT: We have touched on standards and possible overengineering. For 13 years I sat on local government, before I was elected into this role. Some of the standards have certainly changed. Perhaps that may be for the better, but certainly that is placing more pressure on council budgets based on potential overengineering. Rural roads are a classic example of that, where all of a sudden you are building a dual-lane sealed road to service some rural communities where a single-lane bitumen road had serviced those communities for quite some time. Are you observing that about the standards? Something that was regularly referred to by engineers in our council was the MUTCD, which was the bible. It was mentioned before in respect of some of the processes. It said, 'No, it has to be this standard', yet as elected representatives we would say that while the MUTCD may say that, it is going to cost \$3 million per kilometre when perhaps it is not necessary, given the benefit that may come to the community if it is still of a good standard but a lesser standard.

Mr Gillard: Standards have developed basically as one size fits all. Standards are developed to protect the owner and the builder basically, so that litigation cannot occur because they have followed the set down processes. However, engineering is managing the natural resources. Engineering through the ages has always been about what we have, what we can build with what we have and what is underneath. It is not the same.

With a bridge, for example, you can put down a test bore to assess the ground to see how deep your piles have to go. However, five metres away for the next pile it could be entirely different and you have to go another five metres deeper. You cannot specify that you have to have a pile of a certain length to meet that abutment, because you have to determine at the time what the needs are. It might be 30 metres down in one spot and 40 metres five metres away. The engineer has to be there to assess that and make that decision. In my opinion, standards should be used as a guideline and not so much 'you must do this'.

Ms Rawlings: You need the informed person on both sides to agree to vary from a standard. If you have an informed person on one side and not on the other, you are probably never going to get there. If you have an informed person on both sides, you can have that educated discussion, 'We both agree in our engineering capacity that this will actually be what you need—not what you have asked for, but what you need—and it is appropriate and fit for purpose for this occasion.' However, you have to have that informed conversation with two informed people.

Mr Erbs: There are probably two clusters for standards, too. One is mandatory, meaning you must comply. Another is really strong guidelines of industry best practice, so if you do comply with this you have met a requirement. It is a case of picking up an Australian standard and understanding which is a mandatory one and which one has some discretion and can be approached in the way that Stacey was talking about. You will pick up some of the words in some of the standards. With appropriate testing and other things in place, you can change that, but it needs engineering judgement and it really needs that RPQ sign off in Queensland to make that variation. It is a matter of understanding that and putting it in place.

At the end of the day, it is about risk management. You talked about the MUTCD. There are elements of the MUTCD that I would not like to vary away from, because of risk. I do not want to see a child killed because I deviated from the standard. However, there are other standards like the piling where I would be more than happy to come back and say, 'I think this is going to work here.' We were talking about road pavements before and localised materials. It may not meet the standard that was defined by the Queensland department of main roads, but out west local material has been used for the past 50 years on roads that are 50 years old and still standing up. The local knowledge probably knows that. To me, what is the worst case? You are going to get a pothole.

CHAIR: Thank you very much. We are out of time, which is unfortunate. Thank you very much for your input. It has been much appreciated.

Ms Rawlings: We appreciate that.

Mr Gillard: We could go on all day, talking to you about this.

CHAIR: I had trouble getting my head around it, but I am all clear now. I will end this part of the hearing and we will resume at 3 pm.

Proceedings suspended from 1.13 pm to 2.52 pm

CASTLES, Mr Neil, Chief Financial Officer, Western Downs Regional Council

MUSGROVE, Mr Ross, Chief Executive Officer, Western Downs Regional Council

RASMUSSEN, Mr Ian, Councillor, Western Downs Regional Council

CHAIR: I now welcome representatives from the Western Downs Regional Council. Do you have an opening statement?

Councillor Rasmussen: Thank you for the opportunity to be here today. Council certainly expresses its appreciation. The Western Downs region has a number of natural advantages, including rich cropping and grazing land and access to coal seam gas. It also benefits from having the largest number of power stations, coal and gas, and will benefit from the investment in solar and wind energy. While the region has many benefits, it also has disadvantages which affect council's capacity to achieve long-term financial sustainability. Most of these relate to how the region was settled. The rich nature of the soil means the farms were relatively small generally and, consequently, there is a larger local road network. To service the farms, a large number of small towns and some larger towns grew. In a region with 0.7 per cent of the state's population, we have 7,600 kilometres of roads, or 5.1 per cent of the state's local roads, which consumes 94.5 per cent of our rates revenue. We also have 20 water treatment plants, seven sewage treatment plants, or 2.5 per cent of the state's total, and 97 sewerage and water pump stations. In addition—and because of the distances between towns—council provides essential community facilities in each of these towns, including swimming pools, libraries, cemeteries, customer support centres, aerodromes and airports, halls and civic centres.

I am comfortable saying that in terms of infrastructure provision we are over-represented based on the region's proportion of the state's population. Next year, as I said before, 94.5 per cent of our general rates revenue will go to maintaining and improving our local roads. In addition, because of the lack of scale, council's water and waste businesses operate at an accounting loss and therefore are subsidised from other council revenues. While council's sewerage business makes an accounting profit, it will be negatively impacted by the likely closure of workers camps. This lack of scale is repeated through a number of local governments including Southern Downs, South Burnett, Maranoa, North Burnett, Isaac, and Central Highlands in particular.

Council believes this lack of scale is an issue the state government needs to consider carefully. I am reliably informed that addressing this lack of scale in these regions was part of the Local Government Reform Commission's recommendations to the government in 2007. Another concern is the impact environmental waste legislation has on local government. While waste legislation is necessary, I question whether regions like ours need to be subjected to the same requirements as many of the more heavily populated regions. We now have close to the most modern waste facilities in the state. This has come at an enormous cost to council with limited apparent environmental benefits.

We now move to financial sustainability. While council is impacted by diseconomies of scale, it will record an operating profit for 2016-17 as it has in the previous three years. The council has a significant focus on long-term financial sustainability. It not only considers the operating result for the current and budget year but the result to be achieved over the next 10 years. Council has carefully considered the Auditor-General's report on the financial sustainability of local governments and, in general, agrees with those recommendations. As a consequence, the council has implemented a financial management strategy that not only incorporates the three legislative measures but also incorporates another three measures which help explain financial sustainability. Our view is that the net financial liabilities ratio, a legislative measure, does not help to inform a local government of its financial sustainability and should be replaced.

Our budget process begins in November with all councils individually providing their tolerances to rate and utility charge increases, the size of the workforce and capital projects. All discussions and subsequent decisions are made within the context of the long-term sustainability of council and the impact decisions can have on the six key indicators. The current year budget is never considered in isolation to the 10-year forecast.

Council has now finalised its asset management plans for the various infrastructure types. Some work still needs to be done around future maintenance requirements for our facilities infrastructure. When completed, the asset renewal funding ratio will replace the asset sustainability ratio which would make another legislative benchmark redundant. The issue of operating surpluses or balanced operating results needs consideration. In the absence of sound asset management plans and asset life cycle maintenance programs, a common-sense approach is to at least target a

balanced operating result. If a local government is targeting a significant capital works program focussed on upgrading assets and acquiring new assets, a surplus is appropriate. However, if the local government is a sophisticated manager of assets and maintains whole-of-life budgeted costings for the maintenance and replacement of assets, it may be possible to run small deficits regularly without compromising financial sustainability. It is council's intention therefore that individual local governments have some flexibility around the sustainability indicators used and their benchmarks. This is in line with the Auditor-General's recommendation.

In summary, council's view is that the state needs to give special consideration to three areas: firstly, providing additional grant and capital funding to those regional councils that have diseconomies of scale and that must provide the full range of local government services to a large number of small towns; secondly, reconsidering its one-size-fits-all approach to environmental compliance around waste and waste dumps—and that also may be true in other areas of legislation—and, thirdly, reviewing the legislative requirements around financial sustainability indicators, including giving the more sophisticated local governments greater discretion in the setting of benchmarks.

CHAIR: You mentioned additional grants. Do you have any idea in what area you wanted those grants to go or where they should come from?

Mr Musgrove: As you would be aware, Chair, there were capital grants provided in years gone past, particularly for water and sewerage infrastructure, that no longer exist. We get a lot of those facilities coming to end of life and we have to fund the replacement costs of those and that is a significant burden, particularly when you have the diseconomies of scale that a region like ours does. We went through the numbers of plant that we have and it is extraordinary really compared to an urban area. We have 23 water treatment plants for a population of 34,000. We cannot possibly rate to do that; it is just not possible.

Mr Castles: One aspect of it is you can look at capital grants or the other way is the general purpose grants. If we looked at individual towns with the provision of services that we have to provide there, the cost of providing the services far outweighs the revenues that we would get in many of our towns.

CHAIR: Asset management is an opportunity for council to identify what assets you have and how you are going to replace them. You would have a big problem trying to work out an appropriate management plan capable of replacing all those plants at the time when they are all just about at the end of their life. What do you do at the moment?

Mr Castles: I have been out there for 18 months now. Council has done an extraordinary job in doing the asset management plans, getting them up-to-date and so forth. We also, to be fair, have them around our critical trunk infrastructure—when we talk about the trunk infrastructure, we talk about water treatment plants, sewage treatment plants, waste dumps and transfer facilities. I think today we have some of the most modern in the state. I think we are well served there, but obviously over time they do wear out and they will cost to replace. Also what we are finding is that what has not been provided in the regions and certainly what has been a focus of council and the chief executive is to provide some of those softer type community facilities like parks and gardens. You may have heard around Chinchilla there has been a council announcement where they are going to build an extensive garden. It is called the botanic gardens. Chinchilla has never really had anything like that. That is a town that has around 7,000 people and a number of tourists go through it. There is a lot of that softer infrastructure that we have to provide.

Also bear in mind that 94.5 per cent of our rates bill, goes to providing local roads to the community which also includes the coal seam gas companies and everyone else that uses those roads and provides a huge amount of wear and tear on the roads. That is a significant issue. What we are also finding is the money that is coming from Main Roads around their roads is reducing all the time.

CHAIR: You have a number of communities and demand is there from the ratepayers for different things to be established in the community. How do you go about determining what your priorities are with regard to new infrastructure or even the replacement of existing infrastructure? Do you have a committee that does that?

Mr Musgrove: We start our budget process, as stated, in November every year and the budget process is not focused on the next year's budget, it is focused on the next 10 years from that point. From when we sit down in November we are focusing on the next 10 years. It is very much about narrowing wants into needs and then working out how we can fund the needs. We could not possibly fund all of the wants and we need to take a critical look at exactly when infrastructure does need to be funded and find ways of extending the life of the infrastructure perhaps in more innovative ways

and rethinking the way that we would ordinarily do things and trying to find, through innovation, ways to prolong the life of assets. In a council like ours it is not a matter of being able to sit down and say what grand new project we are going to fund next year. We do not have that capacity. What we have to do is make do.

Mr Castles: It is also interesting, in that context, from 2016-17—this year—to 2017-18 we are putting up rates by 2.9 per cent, we are putting up utility charges by \$50, but our revenue, even after we do all of that, is reducing by \$25 million next year. Council quite rightly has a commitment that it will not make staff redundant. We are still forecasting a surplus next year. We are managing within the context of what we have and what we have been dealt, but it is quite significant if you have a budget where total operating revenue and capital revenue last year was around, I think, \$175 million and this year will be around \$150 million. That is substantial. Some of that comes from government grants, some of it comes from money coming from the resources companies, but we have to manage within that context and framework to achieve the outcomes. That is all about this 10-year financial sustainability and what we do as an organisation.

Mr Musgrove: In fact, over the past two years our total revenue has reduced by \$43 million—in just 24 months.

Mr Castles: None of that is flood reconstruction money or anything like that. That is well and truly gone. You could go back five years and it would be \$130 million, but a lot of that was about flood, this is just about our normal operations.

CHAIR: As we have seen a gradual withdrawal of the resources industry, whether it is gas or coalmining, what is it costing you to maintain the supply of water and sewerage to camps and to other housing in the town that might be accommodated by the resources sector? What is the difference between what it is costing you and what you are bringing in from the resource companies these days?

Mr Musgrove: Probably a good example of what you are saying would be the town of Wandoan. You would be very familiar with that town, Chair. The town of Wandoan has gone through a bit of a peak through the expansion in the area of gas through the Charlie development for QGC, but the peak is short lived. In fact, it is coming to a close now. To accommodate that for the last few years there was a requirement on council to build a new sewage treatment plant and a requirement on council to build a new water treatment plant. There was a hope at the time that Xstrata would build a coalmine in the area and those assets would have a longer useful life, but that has not occurred so we have built new assets in that town really for a very short-term purpose, a few years, to enable the coal seam gas companies. They could not have done it without it, they needed sewage and water infrastructure. I cannot remember the exact numbers off the top of my head, Councillor Rasmussen might recall, but many, many millions of dollars. Yes, there will be a legacy of those new plants for the town, but the town is only a few hundred people. These plants were built to service a lot more people than that. The truth is that the coal seam gas companies and others make a welcome contribution to our economy, they have significant activities, they pay significant rates, but they impose significant costs on our communities as well.

We know, and the council has known prior to me getting there, that we have to bear some of those costs to be an enabler of the industry otherwise it would not exist. We are very proud of the fact that we are a region with the lowest unemployment rate in Queensland. We pursue economic development, we do not try to deter it. Also we need to bring in reasonable revenue to enable those things to happen. We can only be an enabler if we can fund it.

Mr Castles: Just on that, we have work camps throughout that region. There are about 5,000 rooms. If you look at sewage treatment, we charge the same for a pedestal as we would in a normal house because you use about the same amount of water and so forth like that. If you look at it, it brings in around \$1.7 million or \$1.8 million worth of revenue. The issue is we have built the infrastructure, those workers camps are closing, a number have closed already, so you are no longer getting the revenue for that. That has to be absorbed within the organisation. If you did not provide the infrastructure in the first place we would be the worst buggers on earth.

CHAIR: Your community's expectations are pretty high now, are they not, that those services must remain in place and be looked after and you do not have a rate base in that particular community to meet the ongoing costs?

Mr Musgrove: Particularly that is the case in relation to roads. Once a road gets upgraded and widened to suit the coal seam gas companies and their large transport of very heavy infrastructure—it might have gone from, quite frankly, being little more than a track to an eight-metre wide professionally built road—then the ongoing maintenance of that our council will have forever, long after the coal seam gas companies are gone.

Councillor Rasmussen: If I can just add to that, I might ask Neil to give a quick brief on our depreciation.

Mr Castles: Again, I am not here to lecture you about depreciation because I think you have had enough people come in here and lecture you about that, but depreciation is around \$44 million or \$45 million a year. If you look at our rates base, I think the general rates base is around \$60 million a year and our total rates and utilities bill is around \$80,000 million a year so it is a significant component. To some extent around depreciation, who knows what is right or wrong. I worked at QTC for a number of years. I did all the reports when I was part of that Local Government Reform Commission. I wrote all the amalgamation reports. No-one knows what is right or wrong about depreciation and what is the right figure. Anyone who can sit in here and tell you what is right or wrong probably has a screw loose.

It is a significant impost, but it is also important that we do it. I think that is the importance of having the asset management plans in place. As soon as we can start to utilise them, and we have our maintenance profiles over the long-term for each of our assets, that will give us a lot better feel for where we are than any depreciation schedule. That is really the focus of the organisation next year. If we do that my view also is, if you are a sophisticated asset manager, you have your asset profiles there, council is very proactive in making decisions about what assets it should keep, what should it allow to run down and so forth, I believe that you can actually run in local government three or four per cent or even five per cent deficits and be okay. Our maintenance is not done through capital works; it is actually done as operating maintenance and things like that.

Depreciation is a problem for all local governments and I can assure you it is probably a bigger problem for the state government. I think it is a problem. We have to live with it. There is not much you can do about it. I think this focus that the Auditor-General has on the asset management planning is entirely appropriate and the quicker local governments and even probably the state government become sophisticated around the asset management plans and process the better off everyone will be.

Ms LEAHY: It is great to have a council here from my electorate, Mr Chairman, so I would like to welcome you here today. I am not sure if you have had a chance to read the submission of the Queensland Resources Council, which says—

Unfortunately, evidence provided to QRC from its members shows the sector is the target of inequitable and unpredictable rate amounts and increases year on year.

...

Resource projects are subject to stringent sets of conditions including agreements with councils which capture the extent to which the project's operations impact council assets ...

...

Resource sector operators frequently report instances of large increases in rates that are clearly not commensurate to impacts on local government services.

I would be interested in your comments on those matters which were raised by the Resources Council.

Mr Musgrove: I would like to state at the outset that Western Downs welcomes the resources industry. There would not be a council that would be more positive about the resources industry than we are. We recognise that without it we would probably have a similar unemployment rate to the rest of regional Queensland: around 10 per cent. Instead, we have the lowest unemployment rate in Queensland and we want to maintain that.

There are a range of financial stressors put on councils which are an impost because of the resources companies and their activities and the activities of their contractors which are not accounted for in any other agreement. Most resources companies' activities are now carried out by contractors, not by the resources companies themselves. We have acted as an enabler for the resources sector by providing them with the utilities, roads, quick approvals and being prepared to, quite frankly, bend over backwards to ensure we have had that economic growth and they can successfully operate businesses, but there is a cost to all of it. We are not running massive surpluses. We are not coming up with big profits out of this. We are providing a service to them and others which needs to be paid for. If it is not the resources company who pays for it, then it cannot be the general payers of Western Downs—the ordinary ratepayers, the farmers or businesspeople or mums and dads who live in town. Are they supposed to pick up the bill for the resources companies? That is not possible. We cannot continue with these enormous costs.

One of the things we alluded to before, which I will speak more about now, is the cost of even handling the waste for the resources sector in the peaks and troughs. It is okay to handle it in the peak because we get the revenue coming in, but all of a sudden it stops and we have had to build these enormous facilities to cope with their waste. Then the waste no longer turns up, so we end up losing a couple of million dollars a year in our waste facilities. They have to pay their way. It cannot be shouldered by the other ratepayers. I do not think the costs that they bring to bear should be shouldered by the state government or the federal government. They are the ones who have come in, as they should, with a profit motive. They should not be in business if they are not trying to make a profit, but they should also be prepared to pay the costs that are associated with that.

Mr Castles: If you look at what has happened to us, it has been an enormous cost to us because we, along with Gladstone, pay the highest wages per local government employee in Queensland. Why was that? That was driven by the resources industry in the boom. I think when you compare our wage rates against South Burnett and Southern Downs we are about 11 per cent higher against Toowoomba, which has far higher living costs than we have. It is around seven or eight per cent higher at this current point in time. How you bring them back in line so you make local government efficient is going to take a long period of time, and that is one of the consequences of the boom.

Whether we build the roads ourselves, whether we do the capital works ourselves or whether they are outsourced, the cost to us of building roads, replacing roads, repairing roads or putting in new water treatment plants or whatever was higher because of the demand in resources in that region for that period of time, and that period of time was probably four or five years. It has had an enormous impact on our cost structures. Should that be passed onto the average individual ratepayer? I would say no. To some extent it should be borne by the resources companies. That is not to say that the resources companies do not provide significant benefits to the communities.

Councillor Rasmussen: From a simple point of view, companies quite often will argue that their rates are commensurate with their impacts, but I will give you an example of one thing that I have seen as a councillor. I could give you 50. They require an airport. They come to a small town of 5,000 and they put up the money and they build the airport. They end up spending \$12 million there. 'Here's a gift. Here you go, council: here's an airport.' When they go we cannot use it, but off the top of my head I would say that would be costing us \$600,000 a year in depreciation. That is why I asked Neil to comment on depreciation before.

In relation to the roads, we may get some government funding and companies may put funding into that, but the road to service their one facility could be anywhere from \$3 million to \$10 million. As the CEO said, once it is there it has to be maintained for the next 50 to 60 years because the community expects it to be maintained. Even though the resource company may have paid for it, it is handed back to us and it then becomes our asset. We then have to budget for depreciation. In the time that I have been in council, which is five years, we have seen our depreciation skyrocket for that reason. Our budgets are suffering because of that and it is a major thing. I am sure the companies would see those as having a minor impact or no impact, but when it is time to sit down and do the budget they are major impacts on our council.

CHAIR: We have had a tendency to let them get away with it too. They walk away and leave all of the infrastructure there and we have let them get away with it. We have not pulled them into line.

Mr Musgrove: They are multibillion dollar companies—probably trillion dollar companies in the case of Shell—so what are relatively minor impacts for them are big impacts for us. Our budget is \$149 million a year. We are not a big organisation. Another \$600,000 a year in depreciation costs, or half a million or \$800,000, whatever it is that they have handed over to us, at the time is hard to find in a budget of \$149 million when you take into account the things that are not movable like wages. We also want to continue to provide all the services to the rest of the community. Although you might think that in a budget of \$149 million \$400,000 or \$500,000 cannot be that bad, it is because it is not a one-off cost: it is multiple times over.

Mrs LAUGA: My question is with respect to procurement, because that is included in the scope of this inquiry. Local governments use preferred supplier panels and sometimes they use Local Buy. Can you explain to me how Western Downs goes about procuring goods and services?

Mr Musgrove: We have actually changed this a lot in the last couple of years. We believe in making use of a lively market. We use panels, but they are quite lively. We review the panels every six months, and we remove businesses that are not performing and replace them with new businesses that come in. We go to quote or tender for everything down to \$2,000, which I think is

unusual, but we have been able to get significant savings through that. We have a preference for using local businesses, and we have been able to work with local businesses to get them to understand how to get more of the local council spend going through their tills. We do not use Local Buy very much at all. We might buy the odd bit through Local Buy, but we do not use them much. We go out to competitive tender or quote for everything all the way down to \$2,000. I will hand over to Neil Castles to give you some more detail.

Mr Castles: What I can say is that we do not mind Local Buy. All we say to our staff is, 'If you are going to use Local Buy, you have to go out for quotes rather than just picking up a price off the screen or the price their consultant is offering.' Our main requirement is that if you are going to use Local Buy, you have to go and look at a number of suppliers of those services through Local Buy and actually go for quotes so that it is a competitive type situation rather than just taking whatever it may be. The council had a very poor practice around procurement. It has been the subject of Auditor-General's reports before. It is probably where the biggest change has been made in Western Downs Regional Council.

We would love to be able to buy more locally. At the moment we buy around 45 per cent of our goods and services locally. It would be fantastic if we were like Brisbane, where basically they can buy 80 or 90 per cent of their goods and services locally or even more. That is hard for us and it is hard for everyone except for the very large regional councils. I suppose even Logan has those same types of problems. It is very hard for regional and local governments to buy the majority of their goods locally simply because those services are not provided. I think the toughest thing that affects regional local governments and communities is that a great proportion of the income of those communities goes out of the communities, and it would be great if we could reverse some of that.

In that regard, my view is that state government should provide more of their services in regional Queensland. Having worked in George Street for almost 40 years of my life, I am confounded by this view that, besides service provision departments like Queensland Health, the majority of public servants in Queensland have to work in George Street. The quality of life, the lifestyle and so forth in regional Queensland is generally much better for the average person and the average public servant, who is effectively an AO3, AO4 or AO5 officer. Housing in Dalby is \$260,000 on average. If you go to Brisbane you are struggling to find a house now for about \$800,000 with proximity to schools and everything. It is because of that that we have to do a lot of the procurement outside of the region. Our mayor, councillors and senior management have made a very conscious effort to improve local purchasing and how we go about it to get a greater percentage of that local spend in the community. We work very hard at it but it is still pretty tough. How do you get opportunities for businesses to relocate when you have a relatively small population?

Mrs LAUGA: I am interested that you go to quote for everything. Do you go to competitive quotes for everything or do you just select three suppliers from your list and ask them for a quote?

Mr Musgrove: Three is the minimum. I always like to see more, when it comes to me, but three is the minimum, but the more competitive the market the better the service and the price you will get. We try to create a competitive market where we do not bundle things that are too big of a bundle that exclude providers. If you bundle things into such a big lump there might be only one or two companies that can possibly bid for it so you have to look at the individual market that you are going into, make sure that you do your bundles in a size that enables maybe four or five companies, hopefully, to quote and that way we find that we get a really lively market. We like to be out in the market fairly regularly as well if we can organise that because people who have just missed out on one job like to get the next one.

Mr Castles: I think we have to balance going out to quotes: where we may go to three organisations to quote, where we might go out to an open tender process where any company can tender or where we go to our preferred panel suppliers and ask all of those suppliers to tender, or we may pick three or four of those panel suppliers to tender. We have to also bear in mind that in some cases, depending on complexity and what we are asking for, there can be a significant cost to the other side of actually preparing quotes. Particularly when you are preparing tender documents they can be very, very significant. We have to get that balance between getting the best outcome for us, but also making it efficient for the companies on the other side or the people who are actually doing the tenders or the quotes. I think that is the balance we have to strike. That is what all business has to do, whether it is state government or local government or the BHPs of the world. We have to work out when we should we go to open tender and when we should go for a quote. A lot of it depends on the size and the scale and the cost of doing things.

Mrs LAUGA: Is there a demonstrated cost benefit of always going to competitive quote?

Mr Musgrove: Yes, there is, and it is also important for transparency. It is important that people see that our work is not locked up with one particular provider or another. One of the other important things, I might say, is that you need to give people a reasonable time to prepare a quote or a tender. Ideally, if it is a complex thing particularly, also engage with the market before you go out. You are trying to stimulate the market. A really good example of that might be we have got some tenders coming up for the provision of our waste services, recycling centres and things like that. Instead of just putting it out for four weeks to see who is prepared to tender, we are out with our chambers of commerce at the moment or in the next few weeks—we have already started, actually—letting them know that these are coming up. Yes, they are currently controlled by a very large waste company, but it is going to be a competitive process and the way we are putting it out is you can do an individual one or you can also put in to do a number of them. By getting out there in the market and letting people know that that is coming up, a long way out—I think it is November—we are already stimulating the market, hopefully to get a really competitive process.

Mr Castles: The other thing is, whether it is state government or local government generally, something like 70 per cent of our capital works program is done in the last five months of the year. If you look at it, 30 per cent in the first seven months, 70 per cent the last five, and that is almost universal. The only bad outcome you can get is an increase cost of procurement because everyone is going out there at the same time. One of our heavy focuses, particularly this year, and we have had these promises in the past, yes, we are doing this, is to actually change the mindset of the organisation. We had our budget on Monday—it seems a long time ago—but it is actually to get them out there preparing documents, talking to the market and going out to tender now rather than in six or eight months.

Also, with some of the work we do, like painting contracts for community housing and things like that, we are actually better off saying, 'We want seven or 10 houses painted this year. We don't care when you do them as long as you paint them.' In that type of situation we are more likely to get a better outcome, because the painting contractor is doing the painting of those houses in the troughs in their business rather than in the peaks of their business. It is those types of things we are trying to do to get better outcomes. What I have seen is the issue with procurement, how we get better at it, whether it is federal government or whatever, is something that government generally has not done great at any level and we have to get a whole lot better at. We have been working on it and it would be fantastic if we could get more local procurement because it would be truly great for the community.

Mr PERRETT: Thank you for coming along here today and giving us an opportunity to hear some of the challenges that you have. One of the areas that I would like to ask a couple of questions on and around is the resource sector. We had Ian Macfarlane here yesterday presenting to this committee about resource companies. He is obviously representing their interests right across Queensland. One of the things I did pick up from his presentation yesterday is that they do want to be good corporate citizens. I would like to get an understanding of the process that you go through with regard to the resource sector when they come in to develop whatever resource it may happen to be.

It was indicated to us yesterday that if it goes to the Coordinator-General level then part of the requirement is the resource companies do negotiate with the local government to the satisfaction of the local government with respect to any of the issues that may be of concern. I ask the question, if that is part of the process and it is correct with these resources companies, some of the potential legacies that have been mentioned here today, like airports, eight-metre wide roads, who places that imposition on those resource companies to build those and why, if they are going to be an ongoing financial problem for those councils, is that not addressed through that presumably negotiation period with those companies because surely that must be known upfront? While it is great to get these shiny new projects and wide bitumen roads, surely there must be an understanding from council that there will be an ongoing legacy when these companies withdraw from these areas.

Mr Musgrove: We try to deal with the resources companies in a very fair way. I think I could put it this way: our relationships are open. We do not always agree. I would say that there are probably frustrations at times on both sides. That is probably natural. We come with different interests. Their interest is to make a profit, ours is to look after the community. I am not saying their interest is wrong. They are a publicly listed company, their interest should be to make a profit, but we are a council, our job is to look after the interests of the community. We come with different interests so we are naturally probably going to disagree on things. The agreements that we have with resources companies tend to be very difficult to get renewed or get changed.

We have had ongoing toing and froing on those through any number of lawyers—the lawyers have made a lot of money, by the way, on both sides—since I have been there, in two years, without any concrete outcome. I am not here to say that the resources companies are all bad; they are not. We welcome them in our community and by and large we probably get along well, but these issues around money I guess are contentious, aren't they. It is not really about dollars in the end. Our communities will be there long after they are gone. The coal seam gas industry basically said at the outset we would have 20 years. We are probably five years into that, so in 15 years time our communities will be there and they will be gone. We have to make sure that we advocate on behalf of our communities as best we can to ensure that there is not a detrimental impact down the track. That is difficult. As I said, we are an organisation with an annual budget for next year of \$149 million and they are multibillion dollar giants that have headquarters in London and Sydney with the best funded lawyers available. It is not necessarily a fair fight. It is probably not right to categorise it as a fight. It is probably an arm wrestle.

Mr Castles: Greg may remember some of this, it probably goes back to 2007 when we had the Local Government Reform Commission. I remember the day before the announcement by Peter Beattie that the Local Government Reform Commission was being established I got a phone call—I was at QTC—saying we had to write a report about financial sustainability of local governments. The focus of the report was about financial sustainability but better capability around local governments making decisions and things like that. If you then read most of the Local Government Reform Commission's report, the focus of the amalgamations, yes, was around financial sustainability, but it was also around better decision-making by local government, improved capability there, and improved capacity to be able to do business with local government from the mining company's perspective because they were building pipelines that may have been going across 20 local governments. We may have reduced it down to five but there were still going to be local governments.

When I look back, in hindsight, and up until the last 18 months I was director-general of local government for a short period of time, and I had experience then, and I have looked back over time and now I have worked in local government for a short period of time too, but what I see and what I have seen is it is easy to go along there and do this very significant macro reform around local government, it is done at a point in time and we say yes we are going to get improved decision-making, we are going to get improved capability and it is going to happen overnight. It does not happen overnight. It takes almost a generation to get that change within local government. It is happening. It is happening slowly.

What I have tended to see in local government over a long period of time is local governments trying to do the right things and wanting to do business with mining companies or wanting to do business with GOCs—yes, we want an airport, we will fund the airport, that will be great, we will have it in our name—but they are wanting to do these things without necessarily thinking of the consequences at the time they were doing them. I think local government is changing enormously in that regard. The people involved in local government have changed enormously. From what I have seen in the 18 or 20 months I have been out at Western Downs Regional Council, there is really good two-way discussion. We are getting outcomes that are far more in our favour and more two-way than what they may well have been in the past, but it is a progression. These big reforms, the structural elements of them may happen at a point in time, but the progress, the improvement, the capability and everything takes a long time and we are seeing that. It is easy maybe in some ways to be critical of local government, but you have to accept everything takes time. I think now we are getting some of the benefit of that and I think that is really important.

Mr PERRETT: This committee will provide a report back to parliament and possibly some recommendations on various issues. That is why I want to get a handle on whether there is systemic failure within the system that creates the situation that you have or whether now, as Mr Castle has indicated, there is a better awareness of these issues and councils and local governments need to be prudent at that negotiation stage to make certain that they are not leaving a legacy there for future councils that could create ongoing financial problems. That is not just with resource councils, that is right across a lot of councils and can be with government grant funding into projects where they have not thought about the whole-life cost.

The other question that I have—and I think you touched on it before—is about this 'one size fits all' that seems to be a practice for all local governments, particularly around environmental restrictions. In other words, while one department may have the best of intentions with things, all of a sudden you get hit with another department, and it always seems to be the Department of Environment and Heritage Protection that comes up with some of the restrictions and the potential fines that they put on local governments for failing in certain areas. I wonder whether you can expand

on that and some of your experiences around waste management. Another one that I am clearly aware of is gravel pits and access to gravel. You used to be able to use borrow pits and all of a sudden the EPA decided they were going to make the box-ticking process for those almost impossible and then there is the cost of getting gravel on to roads where it has to be carted significantly further because it is easier just to have one pit and not have 10 small pits and those sorts of things. Are you able to expand on those sorts of areas of concern that you have as a local government?

Mr Musgrove: Mr Perrett, you have wandered on to one of my favourite topics. I have a letter in my office—I should have brought it—from an officer of the Department of Health that stated that it is a basic human right of all Queenslanders to be provided with potable water. I thought, 'This is obviously somebody who's never been far outside of Brisbane,' because that is not possible. It is just not possible. In all of our area we get our water from aquifers and we have to deal with whatever the water is down there. We cannot change that. We can treat it to a certain extent, but the cost is high and we are not able to provide potable water to all of our residents. That is just crazy, and it is not just us; neither could any of the local governments in regional Queensland. Where the Chair, Mr Pearce, lives it would not be possible. I am a Johnny-come-lately to regional Queensland. I have only been there two years. I used to live just across the river and I was probably guilty in my former time as deputy director-general of the Department of the Premier and Cabinet of not understanding the challenges.

We get imposts put upon us from well-meaning—probably—public servants and politicians who do not understand that what is possible on the east coast is not possible at an affordable cost west of the Great Divide. It is just not. Not only is it not affordable; it is not practical. We are just unable to do some of the things that we are being required to do because we do not have scale. We are not talking about a suburb with 20,000 people in it; we have 34,000 scattered over 38,000 square kilometres. We are bigger than Switzerland—an entire country—yet we are supposed to provide the same services as if you were in the middle of Geneva. It is just not practical and it puts enormous imposts on us, particularly with regard to waste and water. I might hand over to the CFO who might have some examples.

Mr Castles: I think that is particularly true. For things like water, we have a number of potable water treatments where the scale is large enough. In other places we have water that is still at a potable standard but there can be some slight variations in it. The cost of testing is enormous. Getting water from Wivenhoe Dam and bringing it down a pipeline here and the cost of treating a litre of water from the Wivenhoe Dam is a completely different cost to treating a litre of water out of one of our bores where there is a lot of organic matter in there and things like that. It is funny because I was talking to our main water person yesterday about the differences in costs between the two and that is something that I would never have appreciated in the past. I would have thought that the treatment of water is treatment of water, but it is different depending on what matter and what organisms are in there. Even if it was the same size or these water systems like Burdekin Falls Dam or the Burdekin or the Fitzroy River, they have almost perfect water there. We have got none of that access and it is a very large cost. We have transfer costs from Ergon. All of a sudden they decide that we are going to pay for all of our streetlighting, which may be appropriate or whatever, but it is a cost we have never paid in the past. All of a sudden we see over the course of a year and a half—we know electricity prices are moving—that electricity costs for streetlighting have gone up by 50 per cent. It is those types of costs that are killing you and making it so much more difficult for local governments to continue to be financially sustainable.

Mr CRAWFORD: I have three questions and they follow on from a number of questions in relation to the resources industry. The reason why we are asking these is because they gave evidence yesterday and you are the first council that has come along since that has resources industries in them. The QRC have made some recommendations to us in their submission and I want to explore three of them with you. The first is that they recommend that there be a legislative amendment to the Right to Information Act 2009 to remove the exemption for the budgetary information of local governments. Are there any comments you want to make about that?

Mr Musgrove: I think it is similar to the provision that is applied to state government from memory. I do not think it is necessary or helpful because what you would find is, like in state government, probably 20 different versions along the way because budgets are iterative. We do not start our budget deliberations in November knowing where we are going to end up. We build the budget along the way and things change over a period of time. What is completely transparent is the outcome of the budget. It is published. In fact, one thing I will say is this: having worked in state government and also in local government, local government is the most transparent form of

government. There is no hidden cabinet in local government—no hidden cabinet deliberations. Any member of the public or company can come and sit in the gallery at any time if they want to know what is happening. They just have to choose to do it.

Mr Castles: The flip side is that we do not necessarily have access to their information either. I want to revert back to one thing that the member for Gympie asked which I forgot at the time. One thing that would be really important about some of the discussions we have—and Ross often raises it around this capability of point of view and things like that—is that in a lot of ways Western Downs Regional Council have done a lot of things very well, even though the Resources Council may not necessarily agree with that and some of the mining companies may not. One thing that I do not think local governments and nearby local governments do anywhere near well enough is around the issue of sharing information and working together on a strategy. For instance, we have a lot more experience than, say, South Burnett. South Burnett looks like one of the other likely sites to us around solar farms, so should we not have a consistent approach around how we may rate solar farms and things like that? That was just one thing, and sorry about that.

Mr CRAWFORD: No, that is all right; it is quite relevant. The second recommendation I want to explore is that they talked about the Victorian model where there was a ministerial guideline to promote fairness when determining differential ratings and they were quite keen to see the same thing introduced here. They referred to practices such as capacity to pay having been determined as an inappropriate rating approach and they have asked us to look at an urgent introduction of a mandatory guideline for fair and equitable rating in Queensland. Comments?

Mr Castles: If you looked at fairness, it would be interesting in the context of 94.5 per cent of our general rates bill goes on roads. To what extent is it that the coal seam methane gas companies are destroying our roads rather than the farmer in his four-wheel drive? The other thing is, as Ross said, about the water treatment and the sewerage treatment plants in terms of the size and the scale we have had to build for them and the waste dumps that we have had to build to accommodate the resource companies and so forth. They do not look at that when they look at fairness to them and fairness to other ratepayers.

Mr Musgrove: I do not profess to be an expert on the Victorian system. My colleague Mr Hallam sitting in the audience may want to address that when he comes up next. What I will say as a ratepayer in numerous places is that I do not notice the rates being any lower anywhere else than they are here in Queensland. People can get very focused on this, and let us put the resources sector to one side just for a moment. My rates where I live in Dalby or when I lived at East Brisbane are roughly equivalent to my power bill. For my rates I get the roads that I drive on, in Dalby I get connection to sewerage, I get libraries, I get parks, I get swimming pools, I get the social services that are provided by councils and all the grants that support every community group to put on their events across the region and provide the social interaction and social activities for our country—all for the price of a power bill when all I get for my power bill is power. I reckon that value for money wise you cannot go much better than rates, no matter whether you are paying them in Brisbane, the Gold Coast, Cairns or in Dalby. Show me another utility provider that provides better value for money than councils. They do not exist.

Mr CRAWFORD: Another recommendation they have made is about investigating the option to introduce mandatory consultation processes and time frames to engage with stakeholders. They have gone on to say that, unlike other levels of government, local governments in Queensland are not bound by any process to consult or measure impact on stakeholders for newly imposed regulatory and/or financial burdens. They reckon that that removes credibility and transparency of Queensland's rating system. Any comments on that one?

Mr Musgrove: Again having worked in the state system, I happen to know the state is not bound to that either and the federal government do not. They can if they want, but they do not. Regulatory impact statements are not done all that often in my experience. There would have to be even more than 210,000 public servants in Queensland if they were to be done. We are small organisations. We have 750 employees in the Western Downs. One hundred of those I have working in health care looking after aged-care people in aged-care facilities and mowing people's yards and delivering services because there is no-one else to do them. I have about another 400 who are building and maintaining roads and the rest of them are providing the other essential services like water and sewerage. I do not have a spare 20 people to do this or a spare 10. I cannot afford it and it is not necessary.

Let me be frank: we have no engagement with the Queensland Resources Council. I know Ian Macfarlane from his previous roles, but he has never been to my office and I have never been to his and there has never been an invitation either way, so it is not a criticism. However, I have a lot of engagement—probably almost daily—with resources companies. I am sorry if he is not involved in that, but we deal all the time with resources companies—most days, and today I have, yesterday I did. I reckon every day this week I have dealt with an element of a resources company in our area. There is no lack of engagement. The Resources Council are not involved in it, but they are not our customer either. They do not pay any rates in Western Downs. The companies that pay the rates get the engagement.

Mr Castles: I have to say one thing. Like the federal government and the state government, local governments are an easy mark for resources companies. We know too well whether it was Origin, whether it was Shell or whoever and Santos that were building the gas trains and all the infrastructure associated with it. They went double over their budget in building those things and yet once they had them built—given all of the other issues they have had associated with that—it is local government with their rates regime that is an easy target. It is an external target and easy target for organisations like them rather than maybe looking internally sometimes and looking at how they may do their business better. As I said earlier, \$25 million on \$160 million or \$170 million means that we have had to cut 18 per cent out of our budget for this year alone. We have been able to do that and it is not about not paying our statutory charges or whatever.

Mr Musgrove: I just might clarify: in answer to your question, I did not want to mislead. I do have engagement with some industry bodies that do take it upon themselves to engage with me. APPEA, which is the gas industry body, does engage with our council, but I have not had anything to do with the Resources Council in my two years there.

CHAIR: Thank you, gentlemen. The time for this session has now expired. Thank you very much for taking the time to come down today. It has been a valuable session in that we have gained a lot of different perspectives. We will work on this and put it into a report that hopefully makes some of you people happy and makes us happy as well.

HALLAM, Mr Greg, Chief Executive Officer, Local Government Association of Queensland

CHAIR: I welcome Mr Greg Hallam from the Local Government Association of Queensland. Do you have an opening statement?

Mr Hallam: My colleagues appeared some six weeks ago and I think their statement was a full reflection. I apologise; I was on annual leave at the time. I had been through, like everyone else, four weeks without a day off with the disasters, so I took the chance to talk to the dog and my wife—and she would probably suggest in that order! By way of background, I am professionally an economist and spent five years in federal Treasury. For my considerable sins I wrote the drafting instructions for the FAGs act, so my honours thesis was in public finance and Grants Commission methodology. I was formerly the shire clerk of Esk, town clerk of Townsville and CEO of the LGAQ for the past 25 years. I have a lot of background. Unless there is any amplification required, I am happy to take questions because, as I said, my colleagues did an extra good job in running through the matters that were important to us.

Ms LEAHY: Thank you, Greg, for coming here today, and I am pleased that we could work this session around your schedule. Looking at what the committee has heard, there are a lot of issues and I have been trying to quantify those. Some of it is brought about by the Audit Office and there are other issues that come into that: things like councils' inability to source own source revenue; reductions in Main Roads funding where money goes to RoadTek rather than councils; you and I are both well aware of the capital works programs back in 2009 that took \$1 billion out of local government funding; the FAGs funding freeze, which I think your colleagues talked about, taking \$150 million out; the never-ending issue of cost shifting, which I think we have talked about for many years; finding the availability of suitably qualified people in regional areas; grants and subsidies programs which have all of these different requirements for acquitting those; a lack of business coaching and capacity building for councillors; assets are ageing; and some councils have asset plans and some councils are employing people to do asset management plans. There is a suite of issues. How do we fix them?

Mr Hallam: I did think I might have got that question, and I did respond in a lively way to the then Acting Auditor-General, Mr Close, when he put his report to parliament last year, and I do say thank you for accommodating my time today because I had a group of consultants flown in from London and they literally are going back out tomorrow. I have spent a day with them working out data analytics and blockchain capability for councils, so it was now or never so thank you.

Certainly you are correct, Ms Leahy, when you say that our starting position a few years back was when we were in minus \$1.1 billion on the revenue side. Some of that has been allayed I have to say, and that is a good thing. In the last two state and federal budgets—and this is not locked-in funding, but it is there for at least three or four years—we have had bigger Roads to Recovery moneys and more federal Building Better Regions money, but very importantly at the state level we are \$400 million better off, and that is in a range of things. Obviously Works for Queensland is part of that but also expanding TIDS—the Transport Infrastructure Development Scheme—moneys, the state's regional program and some very good initiatives in the state budget around Indigenous funding, SFGA and also Indigenous infrastructure money. I think we probably clawed back about half, subject to that being continued. The rest of it we have to go looking for, and we have been doing that progressively. It is a matter of public record, and I have said it a number of times and the record is clear: we have dropped 5,000 staff in the last five years, so we have gone from 43,500 staff to 38,500 staff. When you cop a cut of that sort of magnitude, you do not have very far to go. The normal levers are stop spending capital, pull back on community grants and the like and go to more of a maintenance based approach to your infrastructure rather than building new. That is essentially where we have been but, as I say, in the last 18 months the financial situation has improved reasonably. The rest of the money we are trying to find through a whole bunch of initiatives.

The LGAQ, as you have obviously picked up from some of your earlier conversations, runs a whole series of companies whose sole purpose is to save councils money. Whether it is our insurance schemes like Local Government Mutual or Local Government Workcare, whether it is our procurement arm Local Buy, which we had some discussions about earlier, whether it is our shared services and managed services company Propel or our engineering company LGIS, they have all got that brief. They are commercial, but their first purpose is to save money for councils. Two years ago we had KPMG do an assessment of the savings that they brought, and this was just mark to market—this was not a transactional efficacy matter, just mark to market—and it was \$140 million per annum. If councils had to go out and do that on their own, they would be paying an extra 140 million bucks. There is still more scope in that. In a perfect world that figure would be \$500 million or \$600 million, so we are about a quarter of what it could be, but it is still a very major contribution.

Insofar as the auditor's comments about compliance—and I was very vehement about this—we could have a perfect record tomorrow, but it will cost us a fortune to do it and it will not build one bit of extra infrastructure, and I need to go to those matters. It is largely the smaller councils and the Indigenous councils that have the issues. They cannot attract qualified staff. It is as simple as that. If you are in a remote community, you cannot get accountants, so they have to get people who come through and do these things periodically. It is the same with engineering staff. They have all got what we would call an overseer, which is like a TAFE level qualification, and they rely on consulting engineers from time to time. They could spend—two people—years doing the work and they would have a perfect audit and the Auditor-General would be happy. However, it would have cost the community a fortune to know what they already know—that the roads are bugged—and it does not produce one extra inch of tar on the roads. I think we just have to be really careful. I am not dismissing the Auditor-General's view, but it is city centric and it does not have an outcome focus. It is about keeping your nose clean. I have spent too much time in local government in my lifetime to believe that those folks do not know, and it was quite offensive to say that the councils did not know about the state of their assets. Of course they know, but they have not got the budget to do it.

When you come to those small communities—and let us just say there are 35 of them, say 17 Indigenous and about the same number of non-Indigenous small rural and remote—they were formed originally back in the time Queensland was created 160 years ago and their purpose was very clear and limited such that they made roads and did the most basic things around the town and the ratepayers could afford to do that. We have a situation now where those same boundaries largely exist, the rate bases have not got any bigger and there is no commercial or industrial base. If you talk about the average town somewhere between 500 and 1,500 people, they will have probably half the people living in town and half living on properties. It comes down to what we call incidence in tax. With such a small base, any rise is felt far more acutely than it is if you can spread it over a lot more people. It is economies of scope and scale I guess.

They are running a model that is incompatible now to what the original fathers back then would have thought the purposes of those local governments were. In terms of the cost of water and sewerage given all of the technology that has evolved and the high standards we have on so many things—and they are all great and fantastic—they have to be paid for. If you look at their big assets, they are all contributed such as their water and wastewater. I give great credit to Tom Burns and then Di McCauley and others who had some great programs for rural communities over 30 years, but that sort of went by the wayside about six or seven years ago when Queensland went into financial difficulties. All of those infrastructures—water, sewerage, all of those big things—were paid for by another level of government, yet under the accounting methodologies and treatments they have to be depreciated as if we were going to replace them. There is no way that those communities could ever afford to pay for that infrastructure, and yet they have carried these massive depreciation charges.

I am not a flat earther; I absolutely believe in accrual accounting. I think it is very important. I think we have to know whole-of-life costing, but I also think it is an absurdity to think that a community that has no capacity to pay \$10 million for a facility is going to turn around and pay it. The alternative of course is you do not have local government in those areas. That is the stark reality the state has to face, whichever side of politics is in power, and it would cost the state more. If you went to outback New South Wales, two-thirds of South Australia and the great bulk of the Northern Territory, there is no local government and the state runs the services. At least in this instance you have people on the ground at a cheaper cost than you would have to provide yourself and they are making some contribution. Own source revenue in those communities is in the order of five per cent to 10 per cent.

I think we have to have a really honest view about how we deal with contributed assets. That is not to say councils should be wanton and not try to maintain them, but some of the difficulties that we have are driven by the very large cost of infrastructure. When the standards went from secondary to tertiary treatment for water and sewerage 20 years ago, the price doubled overnight—literally doubled—and, as my colleagues said before, you are subject to environmental protection measures where some of the consequences are jail in the worst case scenarios. That has not happened and probably would not happen, but there are some very stringent penalties that apply.

We have a model—a system—that does not fit the accounting methodology in my honest view. It can be done a number of ways. There can be some sort of new rules around contributed assets or we move to what I would call a renewals and annuities approach, which is a tried and true accounting methodology which basically says that, in an accounting sense, you would not replace the asset and because you are not going to replace the asset then you do not have to depreciate it. I suppose the other thing to bear in mind is this: it was probably just 25 years ago—30 at the outside—the state

government was basically a one-stop shop for councils. If you went to the department of local government just up the road, they had a water resources division that did all of this work for councils. They had teams of people working with councils on budgets and finance and whatever. They had a whole bunch of people—I can still see them—that did the loaned programs. There were probably in truth, in that department alone, 40 or 50 additional staff that were there to assist councils. None of that exists now. We do that ourselves these days, to the extent we can. We provide all of that sort of help and assistance on an ongoing basis.

The answers are that the big half, the top half, are fine. They have their struggles as always, but they have a rate base and they have reasonable access to good people and good processes. For the smallest 35, there is no silver bullet. It behoves us to continue to provide a lot of resources on a daily basis to help them survive. What is the state's alternative—abolish them? Certainly amalgamation will not help, because it will become even more difficult. You would have massive areas the size of France and a diseconomy.

As I said, it is changes to the audit processes, restoration of state funding to something like the level it was and we are not far away, I know. I give the state credit in the last two budgets and the feds are at least making an effort these days. Then it is for us to continue to do the things that we do around shared services models. I mean 'shared services' in the truest sense of the words, whether it is insurance, procurement or workers compensation and all those things. It saves local government about \$140 million a year, just on the market-to-market value. Hopefully, that is a reasonably comprehensive response.

Ms LEAHY: Well, that is the first 20 minutes done.

Mr Hallam: I have written books about this, literally.

Mr PERRETT: Greg, thank you for coming along. I know you have more than a thorough understanding of the issues in dealing with the complexity of so many councils, as you have just indicated. I want to take it one step further. Something that has been raised by numerous councils here is the vertical fiscal imbalance that exists, which I think it is at the heart of what you have just spoken about, and the LGAQ's position with respect to that. We know that the federal government collects 83 per cent of the taxes in this nation, the state collects 15 to 16 per cent and the local government somewhere between three and 3½ per cent, but some councils have indicated that they have between 30 and 40 per cent of the key infrastructure assets that the community relies on, on a daily basis. There have been suggestions in and around constitutional recognition and all sorts of things that free up opportunities for a change in the funding imbalance. Greg, I would really like to hear your thoughts on whether the issues that you know about and that you raise can be addressed with the current system and the recognition that local government has?

Mr Hallam: Certainly I am a great believer in the notion of vertical fiscal imbalances. I have taught public finance and I have written chapters about it in books. It is correct that it is 83, 14, three the last time I looked at the figures and the percentages. The Commonwealth is the most capable level of government to assist us. There has been a marked change in the last decade. Historically, up until the last decade, the state government would produce 70 per cent of our grant money and the Commonwealth 30 per cent. That has now flipped over. That is not to say it has got bigger; it is just a relative shares change.

We are heavily reliant on the federal government in three key areas. Obviously, the first is the financial assistance grants. The difficulty there is that there is no good news in that for the federal government. It is the same with FAGs from the states: they do not get credit—I accept that—they cannot cut ribbons and the state takes the lion's share of the glory for whatever comes out of it, so there is not a lot of joy in it for them.

Over the last 15 years, the great benefit has been the Roads to Recovery program. I can proudly say that we ran that program out of here. The better roads now program, on which John Howard came to the party, has got bigger and bigger. That has been useful. The NDRRA payments are critically important to this state. They are not a grant in the sense that you are better off; you are repairing infrastructure.

I have been in Canberra since Saturday and got back Wednesday night, attending the National Local Government General Assembly. The great aim of local government is to get to one per cent of total taxation. The original act was brought in by Whitlam in 1974-75. It was known as the PITS act, the Local Government (Personal Income Tax Sharing) Act. It was a fixed share. It was one per cent and then, to his absolute credit, Malcolm Fraser took it to 1½ per cent. Much to my chagrin, when I was in Treasury the Hawke-Keating government broke the nexus in 1987 and there was not the escalation factor. It was not tied to a percentage of tax, albeit the tax base is different now with GST and the like. Until we have access to a growth tax, we are going backwards every year.

I say this to people: in a boom time, the federal and state governments have access to growth taxes. The states' growth taxes obviously are the likes of land tax and stamp duty. We do not have that. We do not have a GST or anything. Admittedly, the floor does not drop out of ours, either. I think that it is fair to say that. We do not have that worry. However, in good times it is quite perverse for us, because when we have big growth spurts the cost to us in infrastructure is enormous to keep up with, yet we do not share in that wealth. The bulk of it goes to the Commonwealth, some of it goes to the states and we get none of it. We have a lovely saying in local government that the feds have the money, the states have the power and we have the problem. That is pretty much the way it is. We do not have access to a growth tax and it is a problem for us.

As I said, if we could get to one per cent of total taxation, then that would be a significant move. The difficulty is being reliant on the state. Queensland had very significant financial problems five or six years ago, which meant that we suffered badly. At that point, we lost all the subsidy programs. As Ms Leahy said, it was \$400 million out the door. We lost significant road funding that supports councils and rural communities. We had a cut to and then a freeze on infrastructure charges, which is significant for us. If you are an SEQ council, you had a freeze on your water retailing. It was a very painful time. As I said, because of that we shed 5,000 people and pulled back capital spend. Ultimately, the only level of government that is capable of fixing the problem is the federal government.

Mr PERRETT: Is that will there, from the federal government? There was a suggestion that there was to be a referendum. Obviously, for various reasons, that did not eventuate. I have not heard any discussion around that again.

Mr Hallam: My sense of it, and I have talking to everyone on both sides of politics in the last five days, is that it will probably be another 10 years before it comes back around again, Mr Perrett, unfortunately. I am not meaning to be political, but Tony Abbott at least put on the table the prospect of a reformed federal financial set of arrangements. You will remember there was a green paper and a white paper, and there were going to be some big reforms. That has all dropped off. That was a two-edged sword: it could have gone against us, but we thought there was an opportunity there. As I say, it is only the federal government that has the financial wherewithal to assist us.

Mrs LAUGA: Mr Hallam, thanks for being here today. I am interested in the issue of procurement. Consultants and contractors are not happy with procurement processes when it comes to local government. They tell me that they are concerned that it is not transparent. They say things like, 'That company gets more work than I do and we never get asked to quote. We fill in all these applications for panels and preferred supplier panels, but we are never even asked to quote for work.' They think that the system is rife with favouritism. In your opinion, is there a way that we can improve the amount of local contractors and consultants that are awarded local work, make procurement easier for local government, get better outcomes for local government and contractors and suppliers, and be more transparent in decision-making?

Mr Hallam: That is an excellent question and it goes to the heart of some of the matters that we have all dealt with in the past few weeks about honesty, openness and probity. I think there are two difficulties. On the one hand, you are trying to be efficient and, on the other hand, you are trying to have an open and transparent process and one that is efficacious, in other words, it does not take you six months to get the bit of kit that you need in two weeks time. We believe that Local Buy is part of the answer. The Auditor-General regularly praises Local Buy, because it brings a level of professionalism to the procurement process that does not exist in other places. I will leave it at that. We have something like 16 full-time professionals who exercise a power under the local government finance regulation, so they have an ability to procure. Under the same regulations that councils operate under, they established, by way of tenders or panels, the standing arrangements. We are subject to audit by the Auditor-General and we also have a requirement to have a probity auditor. We do all that. We have never had an issue with anyone calling into question the legitimacy of the processes that we go through.

The beauty of what we do is we save people a lot of money in two ways. Firstly, because we do bulk, we drop the cost. I will give you an example. As big as Brisbane is, and they are about a quarter of the spend in local government, they buy their wheelie bins off us, simply because we can procure them cheaper by aggregating all of local government. The second saving is a transactional saving. My colleagues talked about it a bit, before. If you are talking about a big piece of yellow plant, like a grader, a scraper or a compactor worth \$400,000 or \$500,000, by the time council puts the add in the big paper and gets a tender spec up, it is 25 grand. By the time that Hastings Deerings, the Caterpillar people, Komatsu or one of the other brands respond, it is 15 grand. That is \$40,000 on

the bill. We have gone through a process. You are going to get exactly the same piece of kit. It is going to have four tyres and do exactly what it is supposed to do and it will turn up tomorrow, if there is one in the shed. That is the absolute beauty of what we do.

I want to go to the question of local supply, because we called it 'Local Buy' for a reason. We have been at great pains to not go around local suppliers. The biggest use items are things like tyres, fuel and windscreens, and they are all done locally. We do a deal at a national level. We actually aggregate not even just in Queensland; we will work with our interstate partners, to the extent that they exist, and other state associations. There are two or three that work with us. We will do a deal with Goodyear or the biggest windscreen mob—O'Brien or whatever it might be—but we insist that they are fitted and supplied locally, so old mate does not miss out. He gets his flip. He gets to put the tyre on or the windscreen in. We have worked really hard. Again, my colleagues made the point that, for half of Queensland, other than the local fuel man and the tyre man—and everyone has a servo—those people do not exist. They do not have a car yard. They do not have any of those supplies. It is all coming from somewhere else.

This is an issue of consternation, I guess, as it gets reported on regularly and there has been CCC investigations. There are small councils where they are using external contractors. In other words, there are two or three people with extra equipment in town. They have an extra backhoe, an extra truck or water truck or whatever. It tends to be that sort of argy-bargy about who is in and who is out, and whether it is a fair and equitable process about whose plant and equipment gets hired to do that sort of work. As I said, the Auditor-General has often—not every year, but every second year—sung the praises of Local Buy and said that it is the way to go.

Mrs LAUGA: What about improving the process for contractors and suppliers? You were talking about the 'big yellow stuff'. What about the local architect and the local consultants who are the people from whom I mostly hear about these issues. They say that with Local Buy, it costs them to get a tender through or to get a project through.

Mr Hallam: One per cent, yes.

Mrs LAUGA: Is that essentially shifting a council's procurement costs onto the people who are applying to supply?

Mr Hallam: I think the difficulty is that—and I have lived and worked in Townsville for four years—it is like any market: there are really good consultants, some in the middle and some are pretty ordinary and you never touch them. It is certainly helpful and important to refresh those panels regularly, every two or three years. You do not want to go every year, because that is counterproductive for everyone in question. Certainly we would rather have more on our list than less. That makes commercial sense to us. The more the merrier. However, it is ultimately up to councils to choose.

One per cent is not a lot of money, given that we save them from all their compliance costs. We are not a charity. Councils do not pay for Local Buy in their subscriptions. It stands alone. It has to wash its own face. We cap—I forget the numbers—at certain amounts, too. If it was a \$10 million job, we would not be taking one per cent. Essentially, they bring a number of things. They bring bulk, they bring compliance as the Auditor-General says, they bring bulk savings and they bring transactional savings. Is it perfect? Absolutely not, but it is a lot better than a lot of other practices out there.

Mrs LAUGA: What about the double-up with respect to Local Buy panels and councils that have their own panels as well? Consultants say that they already have to make submissions to multiple councils to be on their panels but they have to do Local Buy as well.

Mr Hallam: I guess it is no different from Commonwealth and state panels. It is the same deal. It is not mandatory; they make a choice. I only had those meetings last week. The services side of Local Buy is small, to be honest. The bulk of the money is things like telecommunications, fuel, tyres, building materials, road materials and heavy equipment. The services side would not be five per cent of our total revenue in Local Buy. It turns over about half a billion dollars, so it is not small. The services side is quite small.

I have to say that those arguments and those complaints are always larger in tough times. As was mentioned a few times today, we have pulled back on capital spend because we do not have the money. Works for Queensland has all been done locally. That is the beauty of it: \$400 million over 18 months is all going to be spent with local contractors and local consultants. It is local, local, local.

Mr CRAWFORD: I have two questions. You were sitting in the back of the room when I asked a number of questions to the last council about comments made by QRC around consultation and a number of things. Do you have a general statement you would like to make concerning the QRC and their claims with local government?

Mr Hallam: I have a lot of respect for Ian. I have known him in his two former lives when he was at QGA and then obviously as a federal member of parliament. Historically, local government charged way, way under for a long time for the mining industry. A couple of colleagues and I had a look at it about 15 years ago and we brought in some expert economists. We used Alan Morton and Access Economics and a couple of barristers to develop systems that were at least fair, because we were getting massively cleaned up by the companies around Queensland. I do not think there would be more than one council now that has not done a complete review of their rating methodology for those sorts of processes. That is the historic position. They were charging way under and a lot of the gripe was, 'They got away with blue murder for a long time and now they have to pay something that is half reasonable.'

What they are seeking to do—and our lawyers are very clear—is set up more grounds to attack our rating. Like my colleague from Western Downs said before, we are a sphere of government in our own right. There is a sovereign power that the state and federal government and councils have, and that is to do rating. What I have not read in any submission is an acknowledgement that the Supreme Court of Queensland can, and has, overturned outrageous decisions on rating. It can be done. It is a power they hold to themselves and historically they have done that. If we came up with something that was a 10,000 per cent increase off a high base, we would not stand the test of time. All of our processes are open and accountable. We have revenue statements. We have all sorts of justification and budget documents. They do attack us, and we have been to the High Court twice backing councils. One case involved Bowen Xstrata—and I cannot think of the other one offhand—about our right to rate differentially. We won one and sort of won the other one in the sense that the decision of the High Court in Bowen Xstrata was they did not go about the process properly. It was a JR type action to just review and it was set aside, but the High Court said on both occasions that the councils had the right. As I said, I think it comes down to the fact that they had a very lenient situation for a long time. They were not paying anything like the true cost, and I think we have very defensible processes around how we go about that now. They have access to the courts, and the courts can remedy their situation if they have a valid argument.

Mr CRAWFORD: You mentioned the grants work and you mentioned Works for Queensland without looking at that specifically. A number of mayors and CEOs that we have spoken to on this committee—and also that I have spoken to myself—talk about the concept of the Works for Queensland grants style whereby there is not the onus on the council to go through months and months of work and preparation only to be told, 'Thanks very much. Try again some other time.' Is that the style of grant that you think is appropriate for local government; in other words, state government allowing a bit more trust in relation to the local governments without that high level of oversight?

Mr Hallam: Yes. I would preface my comments by saying that the LGAQ policy executive, which is 16 mayors and councillors, meets next Friday to resolve a position on that. We are part of a process with the state government, so there is a current review on. KPMG, who have been a consultant to both parties, will be in our offices next Friday.

The beauty of the Works for Queensland model is that, as you say, Mr Crawford, it is not an onerous system that requires a lot of time and a lot of resources for often nil result. It also gives councils funding certainty. The best model I have ever seen, and all governments have adhered to it—Vaughan Johnson in the Borbidge-Sheldon government brought it in in the 1990s—is the TIDS program, Transport and Infrastructure Development Scheme. Why I say it was so good was because it gave us four years guaranteed funding, so we could plan out four years and we could plan across council boundaries and we would work from one shire to the other. If you knew you did not get a job this year but you were getting one in two years, you went across and worked in Charleville or you worked in Quilpie or whatever. That style of program works best.

We cop it from the Auditor-General, who says that we do not do enough financial planning but, quite frankly, how the hell do you do financial planning when you do not know what grants you are going to get next year? This is again where I get a bit cross. We have sung the praises of the Works for Queensland model. We unashamedly think it is a good model. There are some reasonably good guidelines about how it is distributed. It might look different if the economy was stronger. The distribution might be a bit different with unemployment not being the same as it is now. It is not submission based, it is programmatic, over three or four years you have certainty and you can plan

your capital spend and your workforce. That is a great thing. I stand by that. As I said, my policy executive will have a view, but I think they will reflect exactly what the other councils have said too. There should be more of it and it should be regularised.

CHAIR: Some submitters have argued that FAG funding should do what it is supposed to do: support financial equalisation. If we have a look at the figures, we see that because it is based on population Brisbane City Council collects some \$2 billion more. Then we go down to a local government that receives \$4,000 out of this pool of money. Is there any value in thinking about how we might reduce the amount of money that Brisbane City Council gets simply because they have the continuing ability to raise additional funds?

Mr Hallam: Thank you, Mr Pearce: this goes to the heart of pretty much my life's work. As I said, I wrote the FAGs Act as a 29-year-old a long time ago. It is my speciality. My honours thesis was in that area. The first question I got from Mr Perrett went to the matter. It is vertical fiscal imbalance before horizontal fiscal equalisation. Relative to the other levels of government, Commonwealth particularly, every council is disadvantaged. The reason Whitlam brought the program in in the first instance was to enable Brisbane and other places to be seweraged. That is the truth of the matter. Certainly in a horizontal sense there is no question that Brisbane is far wealthier than Boulia or Bourke, but relatively to the Commonwealth, with all of its other responsibilities around transport, it is not. We have done this piece of work. It is arguable whether the per capita minimum is 20, 25, 30 or 40. That is just an arbitrary number, but it has been that way since Whitlam brought it in. The work we have done shows that the likes of Logan ratepayers would pay four per cent extra in rates and Mackay would pay five per cent extra. I checked with the Redlands in Canberra during the week, and they would pay three per cent extra. This is before a normal rate rise, so you would impose a significant penalty.

If you look at the way the Queensland methodology works it is probably the fairest in this sense and that is not getting into the question of the floor, the per capita minimum. We have more councils on the per capita minimum in percentage terms than any other state in Australia. I refer you to the annual report of the federal government that goes to the parliament every year in relation to the distribution of these moneys. They categorise councils into about 20 categories. Our smallest rural remote councils are the best funded in Australia under our current methodology. They get four times more money than their counterparts in Western Australia. As I say, Queensland has more councils on the per capita minimum than anywhere else in Australia and our small rural councils get the best deal. So they should; we are not arguing against it. I am just saying that from time to time the Commonwealth do that interstate comparison per capita on similar councils and they get them down to a pretty fine granularity. As I said, we have more big councils missing out on the minimum and the highest percentage of money going to small councils, white and black.

CHAIR: Are we better off leaving it as it is?

Mr Hallam: I suppose it is a bit of a faux debate for the state, because the state has no say in it. It is a Commonwealth minister and a Commonwealth act that determine the per capita minimum. The state of Queensland—and every other state, for that matter—is required to set up a grants commission and develop a methodology consistent with the provisions of the federal act and the seven principles that are set out in that act. As I say, it is a faux debate in the sense that it is never going to be your responsibility. It is a Commonwealth matter.

CHAIR: We were up on the cape a couple of weeks ago and a number of local governments have come in yesterday and today. It is pretty scary to see that there are so many councils that are walking the line between surviving and failing. What can we do to make sure that these councils do not fall over the line and cause a financial loss to their ratepayers and the whole of the community? Can government do anything now, or can local governments get together and do something differently? I think we are looking down the barrel of a disaster.

Mr Hallam: I will go back to my answer to Ms Leahy. Fundamentally, the question of finance rests with the Commonwealth. Certainly they can do more in the grants area, particularly around water and sewerage. They have been loath to do that. I think there was an historic turning point last year. They funded some water and sewerage out of the Building our Regions program. That is a big thing. That has not happened since Whitlam, so I think it is significant. The state just ploughed a lot of money, \$200 million, into Indigenous communities over four years for their infrastructure, water and sewerage. I think that is really important.

As I say, the difficulty is that you simply cannot attract and keep the people you need in those small communities. There was an attempt probably 10 years ago to pay people a lot more. There were packages of \$250,000 to be the shire clerk or CEO of some of these small places, and that still did not do the job. You have to think that if the man or the woman has a partner and kids, it is hard.

Bureaucratic service is one of the things we do. As I say, the LGAQ is fortunate that we run a bunch of successful businesses and our members do not pay subs in reality, so we have handed back \$21 million in cash to our councils. I have 77 staff who hold their hand—I do not mean that in a disrespectful way—but they do that day in and day out whether it is in relation to industrial relations, human resources, environment, local government, admin, law, finance—whatever it is. As I said to you, Jim, 25 years ago the state would have been doing it. All of those people who once lived in George Street do not exist anymore, so it falls to us to do it.

I do not know that the situation has got any worse. Certainly amalgamation did not help. I absolutely can make a case for lots of amalgamations, but in some of the rural areas it made life worse. Some of the amalgamations do not make sense. Putting five broke councils together does not make a financial one. Some of them are around your neck of the woods so you know what I am talking about. Even where they claim it was going to be a big advantage of two or three per cent savings, guess what?

I feel particularly for the class of 2008. It was always going to be incredibly hard to come in straight after an amalgamation, but I feel for them for this reason: they tried to be logical. That group of people increased rates by 27 per cent and they increased service charges by 30 per cent because they were trying to get a proper system in place. They got slaughtered. Their efforts were not rewarded. We had the biggest turnover of mayors in history in 2012. They just got cleaned up. There was always going to be reaction to amalgamation, but it was more about the hip pocket.

There are absolute limits on our ability to raise more revenue. In this day and age if you go much beyond CPI you draw the crow. I think it can only be that we get more efficient and smarter and do things better. We can use all the new technologies in the world, and we are using drones and we are using all sorts of things that we did not have before, we are doing data analytics and big data and blockchains and all sorts of things to try to help people. There is always something new that we are working on. We can try to be more efficient, but if you are talking about a rural community, they do not want to lose staff. If they lose the staff they lose someone from the hospital, they lose someone from the school and it is just a vicious circle. As I said, you have got to think through what the alternative is and the alternative is that there is no council and the state has to do it and it is going to cost more anyway.

CHAIR: Is there one thing that stands out to you with regard to what can be done to ensure that the long-term financial sustainability of local government is something that will last? From your position, is there one thing that really stands out?

Mr Hallam: Yes, there is, that the state does not impose any more cost on us. Sometimes it is called cost shifting and other times it is really about the state imposing higher and higher standards. And it is the one-size-fits-all. The standards that might be required in Brisbane or Cairns simply cannot be provided in some of those small communities. No-one thinks through the full cost of doing that. You have to put on more regulatory people, put in new systems. Every time we have one of those we go backward. That and I think, as I said at the outset, changing some of the accounting approaches, so real consideration to some of the hardships that the depreciation causes. That is not saying we should not fund our assets, it is simply to say, as I said, where you have 100 per cent or a very significant percentage of an asset that has contributed, trying to depreciate it I think is a nonsense given that that community will never replace it. So an ability to look at those questions. They would be the two things.

Mr PERRETT: You mentioned the 2008 scenario—it was not a scenario, it actually happened.

Mr Hallam: I lived through it.

Mr PERRETT: So did I and I was one of the councillors that actually survived 2012. There were some very, very difficult decisions that were made at that stage. We had one council this morning, it is on the public record, North Burnett Regional Council, that are doing their best. They have multiple towns, all a similar size, with divisional representation, so they have a councillor based in every single one of those towns. The Queensland Audit Office continually tells them they are at high risk, they are basically going to fail. They are doing their best. They are providing services in those communities that are essential. One of them, they explained, was a swimming pool. It was a \$850,000 loss to provide all the swimming pools, but they want their kids to be able to learn to swim. What is the answer for those councils that were clearly at that stage told that they were going to be financially viable after the amalgamations, or it was suggested they would be? They are not that far out. Rachel Chambers and Mark Pitt, the CEO, were here this morning. The Queensland Audit Office say they are continually not meeting their obligations. The community—they did not say this but I know this happens—thinks they are failing because they are told that they are not meeting their obligations. What happens to those councils?

Mr Hallam: It is very difficult. You might have to redraw the boundaries, dare I say it. The ones that succeeded were the ones where you had a big anchor regional community. I come from the Darling Downs originally, and as much as it upset everyone in Millmerran, Pittsworth, Clifton and, where I came from, Greenmount, the fact you have got a bit rate base in Toowoomba helps you distribute the money. It is the same with Rocky, Townsville, Cairns and Mackay, down to Sarina and up to the valley there, Jim. That is significant. Grants commission methodology goes to this, where you have got five or six town centres and they are probably 250 kilometres apart from north to south and 200 or 300 clicks apart from east to west, you are having to replicate again and again and again and again, whether it is water and sewerage, whether it is swimming pools, whether it is halls. Short of someone giving them a lot more money, and I do not know who that someone else is, you have to wonder whether they drew the lines in the wrong place. They might have done that differently. They are actually worse off not better off. By having more councils that have disparate centres you are worse off than having one. That is the truth. You have got to keep replicating, replicating, replicating.

As I said, maybe at some point in history someone will go back and look at those boundaries. Without a CBD you cannot do it. I agreed with 80 per cent of what the then boundary reform commission did. Mr Castles was part of it. I respect a lot of the people and both sides of politics were part of it, but they got a few wrong.

Ms LEAHY: There are a lot of ageing assets out there, particularly in those councils that might be described as stressed councils. Drawing on your knowledge, should the state and federal government grants programs be focused more on the renewal of those ageing assets rather than the new shiny ribbon and bow type things?

Mr Hallam: In a quick word, yes. Renewal is more important. There are two sets of issues. One is your reticulation. Ultimately the pipes have got a life. You can only resleeve them or do whatever to them any number of times. Some of these get to 50 and 60 years and they have had their useful life. Then there is the question about replacing plant, like motherboards and pumps and all that sort of technology that sits behind it. It is much better that we try to focus on fixing those up. If there is anything that keeps me awake at night it is thinking about some of the bigger country towns, and I will not name them, that have big exposures around water and sewerage. They have plants that will cost them \$25 million, \$35 million to replace and they do not have Buckley's chance of doing that with their rate base. They put rubber bands and sticky tape on it and do their very best to try to keep it all together. Again, it is not an asset they ever paid for in the first place or if they did it was under a different set of rules where the cost of doing water and sewerage was half the price. You cannot come to a view that some poor bugger is going to have to pay \$5,000 for a water and sewerage service. That is just not fair, no matter where they live.

I would like to see, and we argued for it in our budget submissions, ultimately, whether it is Works for Queensland or something like that, a program around that \$400 million where it was before we ended up in financial strife. That goes a fair way towards it. Again I am not picking on but praising Di McCauley. The SCAT program was a great program. Tom Burns was involved in that and Terry Mackenroth afterwards. It recognised that those communities needed about 80 per cent. The normal rules under the water and sewerage program was 40 per cent and you had to pay the other 60. They could not even wear the 40 per cent. Where they got 100 or 80 per cent under SCAT it worked a lot. That was clever because we used all sorts of different approaches. It was not stock standard. We used to have things like common effluent drainage in Tambo. It worked brilliantly. Using melaleuca trees, all sorts of different ways of disinfecting and treating sewerage. It did not have to be the lavish plant. I think if we get back to that point and make the focus on what are the most basic infrastructures that a community needs, and I would argue water and sewerage even more than roads to be honest in the towns, if they are the focus, and making sure we can maintain them. As I said, if we have a ticking time bomb in Queensland it will be around one of those going kaput.

CHAIR: Thank you very much for coming here this afternoon. We appreciate the knowledge you have and your experience. It is always good to have you in and allow you to have input. Again thanks very much. I will declare today's hearing closed. We look forward as a committee to putting together a report on this particular issue and see how many people we make happy.

Mr Hallam: That is the hardest job, isn't it? Thank you very much for having me today and this chance to speak for the association twice. I look forward to reading your report.

Committee adjourned at 4.56 pm