Far North Queensland Regional Organisation Of Councils

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Committee Secretary
Infrastructure, Planning and Natural Resources Committee
Parliament House
George Street
BRISBANE QLD 4000
Via email: ipnrc@parliament.qld.gov.au

Dear Dr Dewar

Inquiry into the long-term financial sustainability of local government

The Far North Queensland Regional Organisation of Councils (FNQROC) was established in the 1980's and represents 13 member Councils being Cairns, Cassowary and Tablelands Regional Councils, Carpentaria, Cook, Croydon, Douglas, Etheridge, Hinchinbrook and Mareeba Shire Councils, and Hopevale, Yarrabah and Wujal Wujal Aboriginal Shire Councils. This area covers 1,235km of the eastern seaboard and a land area of 319,063 square kilometres. Our population is approximately 273,000 with a gross regional product of $12.286 billion.

FNQROC is currently the largest ROC in Queensland by way of council membership. Our role is to foster cooperation and resource sharing between Councils and effectively advocate regional positions and priorities.

Thank you for your invitation to provide a regional submission to the inquiry into the long-term financial sustainability of local government.

As the committee will appreciate the diversity of councils within the State provides a difficult platform to commence. This is no different within our region. We have a large regional council which is generally 59% of our regional population and 69% of our regional GRP right through to our Indigenous councils with minimal rate base, land constraints, social housing issues and extremely high unemployment.

Our submission forms a high level overview which does not address each of the points under the committee's terms of Reference. Individual submissions by FNQROC member councils and LGAQ's submission is supported by FNQROC.

General comments

Operationally, since 2001 FNQROC has focussed on key priority areas to support member councils which eventually can be linked back to financial benefits for member councils. While each regions priority will differ, for our region the below is an extract of some of our activities:

- Regional Development Manual – which guides all civil engineering within the region to ensure assets donated to councils are current best practice and minimises the long term financial burdens on the ratepayer.

- Numerous regional strategies such as:
  - Regional Asset Management Strategy (2009) which councils have now surpassed.
  - Regional biodiversity strategy to ensure we focus on those activities where we can have an impact.
  - Waste and recycling strategy – two have been completed in the last 14 years.
  - Alternative mechanisms for managing our road network
  - Plus many more
- Regional template for Asset Service levels (2010) which links customer levels of service to technical levels of service.
- Benchmarking of asset useful lives and residual values
- 14 technical committees focussed on differing portfolios which are council's responsibility.
- Regional Procurement – where our focus is on those activities where there are limited suppliers and councils are competing against each other and driving price up or service quality/delivery down or it is a legislative requirement i.e. regional bitumen reseal program, waste steel collection, water chemicals, Biosolids and drinking water quality management plan audits etc.

This region has been quite proactive in terms of working collaboratively to minimise cost, increase service levels and meet various legislative requirements. This collective effort does not happen overnight and takes strategic foresight, investment and stable growth and investment from FNQROC member councils.

Member councils are acutely aware that their ability to provide services to their communities has a direct link to sustainable economic growth however; the community's capacity to pay also has an impact on council's capacity to provide services and infrastructure to support growth.

Historically central governments supported regions such as ours for economic growth; much of our infrastructure was funded by central governments in the 1950's; local governments are now required to maintain, renew, replace and increase assets with declining central government support through subsidies, grants and increased legislative constraints or responsibilities. In 2008 the Productivity Commission undertook a review into Assessing Local Government Revenue Raising Capacity[1] which further details this with no improvement since. The majority of current funding opportunities are for new infrastructure, very few support ongoing maintenance and renewal.

One of the key priorities from our 2012-2017 FNQROC strategic directions was to understand the regions Infrastructure renewal gap and councils capacity to raise revenue to meet this infrastructure renewal gap.

In ascertaining our capacity to raise revenue it needs to be recognised that the region covers a large area of 319,063 square kilometres, encompassing over 17% of the state. Approximately half of the population lives in urban areas, while the rest are distributed over rural and remote locations. Most of FNQ is in fact rural and remote with only a few centres with populations over 25,000 people.

[1] http://www.pc.gov.au/inquiries/completed/local-government

The connection between disadvantage, demography and geography are well established. The Socio-economic Indicators for Areas (SEIFA) – an overall measure of disadvantage – shows that FNQ has a larger proportion of its population in the most disadvantaged quintile. The majority of locations in FNQ are below the Australian average of 1000 points. Some examples include Cairns 975, Carpentaria 865, Hope Vale 678, Tablelands 932, and Yarrabah 554. The Indigenous local government areas in FNQ have the lowest SEIFA indexes in Australia.

There is long list of social issues that have been identified in FNQ including lower levels of income, high unemployment, lower levels of school completion, higher levels of domestic and family violence, mental health issues, just to name a few. The Counting the Homeless Queensland[2], shows that FNQ has a higher proportion of homeless people per 10,000 population than Queensland as a whole, with 11.6% of Queensland's homeless people where the state average is 6.3%.

A number of factors influence welfare spending including population growth, the cost of providing services and rates of service use, and the capacity to pay, which in FNQ is limited (CSSA 2014) reflected by the relatively small private sector involvement in human service delivery. It is well established that investments in people yield multiple returns to society in both social and economic terms. As noted by the Minerals Council of Australia, in its submission to a Parliamentary Inquiry into Northern Australia[3] "research suggests that communities that do not have sufficient infrastructure, social amenity and economic diversity will not attract new residents and this will in turn constrain the industry's recruitment capacity".

In understanding our infrastructure renewal gap this was also difficult. A report was delivered in 2016 to the FNQROC board identifying a number of issues which made this difficult. Some of these include:

- ***Variability between Councils***, including:
    - Differing revenue, expenditure and debt levels,
    - Differing asset lives and the effects of their depreciation amounts, for example, bitumen reseals. Regionally there is a minimum asset life of 10 years, a maximum of 40 years and a median useful life of 12-15 years.
    - Differing valuation methodologies utilised (internally/externally), for example, an external consultant has provided differing valuations for the same category of asset (water assets for CRC, CCRC, Cook and Douglas).
    - Varying levels of confidence in long term plans and forecasts such as Capital Expenditure (Cap Ex) and Asset Management Plans (AMPs), ie high confidence in years 1 to 3, decreasing in confidence from years 3 to 10.
    - High variance between Councils on the value of assets per capita. See table 1

[2] Chamberlain C, MacKenzie D2009. Counting the homeless 2006: Queensland. Cat. No. HOU 205. Canberra: AIHW
[3] Submission No. 122 http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Former_Committees/Northern_Australia/Inquiry_into_the_Development_of_Northern_Australia/Submissions

Table 1 Value of the replacement cost of assets for each resident living in the area

Local Government	Population 2013/14	Asset Base $ per capita 2013/14	Asset Base $ per capita 2014/15
Cairns	158,985	$28,239	$29,951
Cassowary	28,705	$54,553	$56,873
Cook	4,260	$84,852	$89,633
Croydon	324	$389,935	$390,038
Douglas	11,607	$28,375	$31,367
Etheridge	921	$209,883	$244,052
Hinchinbrook	11,541	$34,966	$33,929
Mareeba	21,537	$15,734	$16,185
Tablelands	24,973	$25,457	$26,429
Wujal Wujal	291	-	-
Yarrabah	2,687	$58,360	$59,112

Data Source: LGAQ – Better Communities, Performance Benchmarking - Annual Reports and ABS

NB: Only Councils of similar population should be compared when seeking a perspective on Council investment, levels of service and infrastructure demand.

- ***Influence of significant weather events.*** Through Natural Disaster Recovery Relief Arrangements (NDRRA), Federal and State Governments provide significant financial contribution to the restoration of assets, skewing the Asset Sustainability Ratio.
- **The difficulty in comparing Councils within a region**, for example, Coastal Provincial (e.g. Cairns), Rural Regional (e.g. Cassowary), Rural Remote (e.g. Cook) and Indigenous (e.g. Wujal Wujal).
- **Regular changes to funding from State and Federal** (up and down) influence Councils' ability to plan long term expenditure.

Comments on the Parliamentary committee Terms of Reference

a. Financial planning and long-term forecasting

As a region, all member local governments would like to express our appreciation for the Works for Queensland Program and the ease in which the funding was applied and delivered. Not only did this get funding swiftly on the ground for delivery it also expressed trust in local government; a culture shift we appreciate. We would be grateful if this continued into future years.

When considering financial planning and long term forecasting, individual local governments will be better able to articulate their experiences. From a regional perspective I would like to touch on emerging technologies, grants and subsidies, small remote and Aboriginal councils; rate base and land tenure.

Emerging technologies

It is common knowledge that emerging technologies have both a positive and negative impact on financial planning and long term forecasting. Councils at times are frustrated by government and government owned companies when it comes to taking advantage of emerging technologies to mitigate potential future costs.

Case example: In 2010 this region commissioned and received a 'Regional Greenhouse Mitigation Action Plan: Managing Risk in a Carbon Economy". This plan identified Street lighting as a key priority. The report recommends that through mitigation efforts, including the application of new energy and cost saving lighting technology, the region could make savings of up to $782,000 per year (equating to a regional GHG reduction of 2,700 tonnes). The expected investment to make this happen would be about $5.5 million with a return on investment expected at seven years.

Whilst the retrofit of the regions streetlights sounds like a straight-forward exercise, in fact the complexities around tariff arrangements and preferred luminaires for street lighting are currently dictated by Ergon Energy for Rate 1 and 2. This therefore makes it a somewhat difficult task for the region's Councils to implement energy and cost saving initiatives.

In 2012 the Federal Government under the Community Energy Efficiency Program (CEEP) indicated strong support for the installation of Energy Efficient (EE) street lighting. FNQROC wanted to take advantage of this opportunity via a retrofit of the regions streetlights. We held numerous meetings with Ergon, met with countless officers, we even had a direct line at the time to the CEO to try and progress this. Time and time again stumbling blocks were put before us, they said they hadn't tested enough, they blamed the Australian Energy Market Operator, they blamed the Australian Energy Regulator and their distribution reset determination. While we were wading through all of this (including providing a submission to the 2015 distribution reset) the rest of Australia was implementing LED technology with the support of federal funding. (It should be stated here that Ergon did assist councils with a tariff review on our top 20% of users i.e. sewerage treatment plants, buildings etc)

It wasn't until 2016 that Ergon included LEDs in their permitted list for rate 1 and 2 streetlight; as a region we still wait for our 4,500 financially out of date mercury vapours to be replaced which is costing us an additional cost of $550,000 per year. An assessment could be made on our total network however it seemed realistic to focus on our older lights which can be found in clusters around the region.

Grants and subsidies

LGAQ will be able to articulate the state-wide impact of reducing grants and subsidies over the last 10 years. This reduction and the sudden removal of grants and subsidies has varying degrees of impact on member councils; for our smaller councils this impact can be critical.

Case example: On the 16th June 2009, the Queensland State government announced the 'closure' of many subsidy programs, of particular concern to FNQROC was the 40% subsidy for water and sewerage infrastructure which was to be replaced in 2011 with a new program capped at $45mil. (As it turned out, this new program included applications from all asset classes not just water and waste).

Within this region councils identified over $326mil in forward water and sewer projects which were required to be undertaken (in most instances to meet the then Environmental Protection Agency (EPA) requirements as a result of being located next to the Great Barrier Reef and within the Wet Tropics). The impact of this loss on member councils forward plans equated to $131.5mil ($29mil 2009/10, $45mil 2010/11, $19mil 2011/12 and $37mil in future years). At the time this equated to $606 per person living in this region. This was exacerbated further as prior to amalgamations many of the smaller councils had not proceeded with or finalised their water and waste plans as they struggled to find a reasonable way to raise the funding required for such expensive upgrades. When amalgamated, the amalgamated council was left with these legacy issues.

Small Remote Councils

When we consider our small remote councils such as Cook, Carpentaria, Croydon and Etheridge, they are the most affected by the ad hoc grants and subsidy programs.

Table 1 - Small Remote Councils

	Carpentaria Shire Council	Cook Shire Council	Croydon Shire Council	Etheridge Shire Council
Land Area (km^2)	64,373	106,188	29,538	33,332
Population	2,286	4,501	331	942
Net rates and utility charges ($'000)	6,987	6,564	609	2,643
Road network managed (Linear Km)	1,637	2,927	1,088	1,757

(Source: Department of Infrastructure, Local Government and Planning, Qld Local Government Comparative Information 2015/16)

Note: It is assumed the committee has access and will be making assessments on councils Revenue ratio, operating efficiency ratio and working capital ratio etc. so they will not be replicated here with the associated disclaimers and assumptions.

As a result of numerous pieces of legislation, these councils are responsible for a significant land area with a relatively small rate base.

This land area results in a high number of local government roads to be managed by these councils. It is worth noting that the Far North District of the Department of Transport and Main Roads is responsible for approximately 2,941 km[4] and these four councils are responsible for a total of 7,227km of roads. The majority of Cook Shire Council roads traverse through Lakefield National Park (to the tip) and provides access to Indigenous communities; very few of these roads support the rate payers of Cook Shire Council. This instance continues to worsen as more leasehold land is converted to State and National Parks.

For these councils, the reliance on grants and subsidies is well documented. Essentially these councils are resource poor in terms of funds, connectedness (face to face, or via current communication technologies) and expertise which further exacerbates their ability to prepare for and apply for these grants and subsidies; they simply cannot compete with the majority of councils in Queensland.

It should also be noted that these councils find themselves managing additional community services usually provided by State and Federal Governments in other areas of the State. These services include child care, kindergartens, health care services, housing etc. These are the same services accessed by State and Federal employees living in these areas.

Aboriginal Shire Councils

Much has been documented about Aboriginal Shire Councils and financial planning and long-term forecasting. They have little to no rate base, absolute reliance on grants and subsidies and are continually frustrated in their attempts for economic growth. In addition to comments related to smaller remote councils, the frustrations arise from (but not limited to):

- Accessing Freehold/lease hold land;

[4] Qld Transport and Roads Investment Program (QTRIP) 2016-17 to 2019-20

- Communities ability to access funds to build houses on freehold/leasehold land which then impacts on the councils ability to rate;
- The Indigenous Land Use Agreement process;
- Funding/subsidies tied to activities or projects that are not necessarily their priority but more a priority of the department providing the funding/subsidy. The councils are then required to maintain these assets;
- Housing shortages;
- Infrastructure (essential) to support the community to enable them to participate in active employment to enable them to purchase freehold/lease hold land to enable council to rate for services provided.

b. <u>Asset condition data and asset management plans</u>

FNQROC will leave submissions on Asset Management Plans to individual councils. We do however have relatively consistent observations regarding asset condition data.

Councils within this region have put a concerted effort into assessing asset conditions. The confidence levels of asset condition data does depend on a number of factors:

- Assets underground are costly to assess and with many of them placed over 30 years ago the data supporting their placement is limited to nil.
- Council's ability to fund the collection of condition data – particularly for smaller councils with large land areas.

The process of trying to ascertain our regional infrastructure funding gap did identify a number of positive developments in Asset Management across the region. With the Local Government sector facing increasing financial challenges, member councils have endeavoured to strike a balance between their current priorities and long term financial sustainability responsibilities.

Councils are taking a proactive approach to the management of their assets and are meeting the challenges of long term financial sustainability in a variety of ways, including:

- Focusing on best value for money for ratepayers (return on investment),
- Considering whole-of-life costing (asset sustainability),
- Accepting a degree of additional risk,
- Understanding the cost of services and balancing these with the communities capacity and willingness to pay,
- Gaining improved knowledge of LGs assets and service levels across the state,
- Reviewing financial expenditure and long term financial plans in relation to maintenance, renewal and capital expenditure of assets and where appropriate, pushing back non-essential expenditure.
- The creation of a regional benchmarking tool and the workshopping of opportunities made available through the process which has raised the level of awareness of asset management developments within the region.

- Practitioners are now better placed to consider infrastructure implications in their purchasing and asset management programs.

It is recognised that funding of essential local government infrastructure requires long term investment and planning. The FNQROC Regional Asset Management technical committee will continue to work collaboratively to:

a) Share knowledge and experiences to keep abreast of current technologies and projects relating to Asset Management to ensure timely awareness of emerging issues and opportunities.

b) Promote and support professional development among staff within the region.

c) Keep abreast of proposed legislative and Australian Accounting Standard Board (AASB) changes and the impacts that those changes have on LGs.

d) Identify, create and pursuing opportunities for cross local government (and other agencies and industry) alignment and coordination in service delivery.

e) Ensure data relevance within the Asset Management Benchmarking Tool through continual review.

Emerging technologies

Emerging technologies provide councils with both opportunities and threats. This region continues to be innovative and question if there is a better way to manage our assets. With emerging technologies and options to extend the life of assets, councils are faced with having to decipher the 'snake oil salesman' from real innovative options. Looking to State agencies for support in deciphering this is at times unhelpful and perhaps stifling opportunities for councils to manage asset conditions better.

Case study example: In 2010, we undertook level 1 and 2 inspections of bridges on our local roads of Regional Significance (LRRS). 33 Bridges were inspected, the results were as follows:

Condition State 2 (Fair)	2
Condition State 3 (Poor)	8
Condition State 4 (Very Poor)	22
Condition State 5 (Unsafe)	1

Naturally these results initially 'shook up' the works programs and budgets as over two thirds of the timber bridges were considered very poor or unsafe and needed action.

Historically the general philosophy of Councils and TMR towards timber bridges has been to replace using concrete, steel or composites etc.

In 2011 Cassowary Coast investigated alternative options in dealing with timber bridges and it was found that there were advanced and alternative principles for the inspection, restoration and preservation of timber bridges. These principles were then applied to 3 timber bridges which were successful so they applied them to all the timber bridges on Kirrima Range Road (which at that time was closed due to the state of the bridges).

As a result of this, and as the Departments Timber Bridge Maintenance Manual had not been reviewed since February 2005, in 2012 this region put forward a proposal to the Department of Main Roads through the Roads Alliance to develop an Alternative Timber Bridge Inspection and Maintenance Manual utilising the learnings within Cassowary Coast. It was believed this alternative approach to the management of timber bridges would greatly increase the technical capabilities of all Queensland local governments and TMR staff and had the potential to significantly reduce whole-of-life costs without compromising safety or service levels for this critical class of public infrastructure. This request was declined; the manual remains as is from February 2005.

c. Financial sustainability ratios and targets

This region has undertaken a regional analysis based on the financial sustainability ratios and targets with publically available information. Whilst the results indicate the region is meeting 2 of the 3 ratio benchmarks the results are severely affected by the size and location of councils.

FNQROC would prefer to leave specific comments on the ratios to individual councils.

Yours sincerely

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