



Submission

to

Productivity Commission Inquiry

on

Natural Disaster Funding Arrangements

Whitsunday Regional Council

October 2014

Executive Summary

Whitsunday Regional Council through this submission is focused on demonstrating the benefits to regional communities that the NDRRA provides. However it also demonstrates where the program when managed ineffectually can cause financial detriment and reputational risk.

The weather events of 2009 / 2010 / 2011, saw Whitsunday Regional Council submit damage claims to the State Government of Queensland in excess of \$214M. These claims were approved via the former Department of Infrastructure and Planning as well as the Department of Transport and Main Roads. Given the significant weather events of 2011, the Queensland Reconstruction Authority was formed and took over the administrative requirements of the NDRRA Program on behalf of the State Government of Queensland. This included liaising directly with Local Governments across Queensland who had submitted damage claims.

In the case of Whitsunday Regional Council, early 2012 saw Council claims being questioned by the Queensland Reconstruction Authority on a two fold basis:

1. Eligibility and restoration to pre existing standard
2. Delivery of works in excess of agreed and approved recommended values

The questioning of Council's claims specifically related to the 2010 program, however this triggered a review of the 2009 and the yet to be delivered 2011 program. Overall it became apparent in October of 2012 that Council had not only delivered ineligible and out of scope works (after assessment by Queensland Reconstruction Authority for the 2010 NDRRA Program) , but had also significantly overspent without authorisation from Queensland Reconstruction Authority and ultimately Council.

Once the magnitude of the issues at hand were reviewed and fully understood by Council, immediate action was taken to introduce a governance framework to ensure a situation such as this never occurs again.

It has been determined by Council that due to its unique experience across the 2009 / 2010 / 2011 NDRRA programs that it would be beneficial to present a submission advising of:

- 2009 / 2010 / 2011 programs and lessons learnt / actions taken
- Day Labour / VFM Pricing Model
- Department of Infrastructure and Planning / Queensland Reconstruction Authority
- Future for Council's given the draft report recommendations

Overall it must be advised that as a result of the difficulties caused during 2009 and 2010 programs Council has delivered the 2011 program with best practice results. The delivery of the 2011 program demonstrates what Council's can achieve for their communities after a disaster event when a program is managed and delivered in a realistic manner.

The submission from Whitsunday Regional Council provides 4 recommendations for consideration of the committee, these are provided and addressed throughout the submission.

1. Whitsunday Regional Council

The Whitsunday region encompasses a total land area of 23,862 square kilometres and includes the major townships of Airlie Beach, Bowen, Cannonvale, Collinsville and Proserpine, with numerous rural and coastal communities and residential areas scattered throughout the area. The Bruce Highway is the major transport corridor running north-south through the region, to Mackay in the south and Townsville and Burdekin in the north.

Population

The Whitsunday region is home to approximately 35,500 permanent residents. Due to the strength of the local economy, the region's population is expected to grow at an annual rate of 2.3 per cent over the next 20 years, which exceeds the State average of 1.8 per cent.

Regional Growth

As the gateway to the Great Barrier Reef and the magnificent 74 Whitsunday Islands, the Whitsunday region has one of the fastest growing populations in Queensland. Boasting a strong and diverse economy driven by the agriculture, construction, mining and tourism industries; the Whitsunday region has the potential to become the economic powerhouse of North Queensland.

Local Economy

The Whitsunday Region enjoys a strong and diverse economy driven by the agriculture, construction, mining and tourism industries. The future economic prosperity of the Whitsunday Region lies in its competitive advantages. The advantages being its close proximity to the mining regions, the availability of residential and industrial land, the diversity of industries within the region, quality of lifestyle and natural assets. These attributes result in the Whitsunday Region fast becoming a destination of choice for investors, industry and lifestyle living.

Vision

Natural beauty, global attraction. We have it all.

Mission

We are committed to providing the Whitsunday region with strong and responsive local government and achieving an innovative, efficient and sustainable organisation.

Values

- **C**ommunity and taking pride in the work we do for our region, residents and ratepayers.
- **A**ccountability in the way we make our decisions and perform our responsibilities.
- **R**espect for our organisation, customers and community.
- **E**thics and ensuring our decisions and actions are in accordance with the appropriate legislation, policies and guidelines.

2. 2009 / 2010 / 2011 programs and lessons learnt / actions taken

2009

Recommended / Submission Value \$43.6M

Whitsunday Regional Council Expenditure \$44.4M

Eligible Expenditure \$33.6

Amount Reimbursed to QRA / Non Payment to Council due to ineligibility \$10.8M

The 2009 NDRRA Program delivered by Whitsunday Regional Council had been completed with a spend very close to the recommended / submission value to the State Government of Queensland. Up until mid 2013 the program was deemed to be at an acquittal stage, as State Government Departments had previously advised.

However, on review by the Queensland Reconstruction Authority, it was deemed that ineligible and out of scope works had been delivered throughout the program. Council appointed AURECON – consulting engineering firm to review the program, on an independent basis in consultation with the Queensland Reconstruction Authority. Their review deemed \$10.8M of the program's expenditure had been delivered in an ineligible manner and that reimbursement was required by Council.

Council through arrangements with the Queensland Treasury Corporation, Queensland Reconstruction Authority, Queensland Audit Office and the Department of Local Government Community Recovery and Resilience, were able to fund the reimbursement via offset payments against the 2011 program, utilisation of a working capital facility and rate payer funds, within the 13/14 Financial Year.

2010

Recommended / Submission Value \$87.9M

Whitsunday Regional Council Expenditure \$109M

Eligible Expenditure \$92.5M

Amount Reimbursed to QRA / Non Payment to Council due to ineligibility \$16.5M

The 2010 NDRRA Program delivered by Whitsunday Regional Council had been delivered in a manner that lacked governance and allowed a significant overspend to occur. This overspend was not reported to Council via Council Meetings or Briefings and it was the Queensland Reconstruction Authority who advised Councillors of the overspend situation in October of 2012.

This ultimately led to a more robust governance framework to be implemented by Council for future events and changes throughout the organisation.

The total combined cost to Council for the 2009 and 2010 events totalled \$27.3M, with approximately \$4M from the 2010 Program is still under dispute. The impact of these additional costs on a Council of Whitsunday Regional Council's size has been profound, causing a flow on affect through Council's finances negatively affecting the ratepayer and the community over the past two financial years.

2011

Recommended / Submission Value \$84.2M

Revised Recommended / Submission Value \$57.4M

Eligible Expenditure, inclusive of day labour provisions \$49.9M

Amount Reimbursed to QRA / Non Payment to Council due to ineligibility – Nil

As a result of the governance issues identified in relation to the 2009 and 2010 programs, Council implemented a heightened level of governance over the entire program.

This led to a program leadership team being implemented that included the Mayor, a Councillor representative, Chief Executive and Chief Financial Officers as well as senior management of the Council's Engineering Department.

The immediate response was to revise the entire program to ensure that any potential ineligible or out of scope works that were part of the original submission were removed from the program. Council's revision of the program was undertaken with the QRA and also Commonwealth inspectors to ensure pre approval of all elements to be delivered within the program. The support provided by the QRA and the Commonwealth inspectors allowed Council to move forward with confidence and deliver the best possible outcome for the community.

One of the main benefits that the 2011 program provided was that Council could make significant changes to its works program via the use of day labour. The day labour model, while a cost to Council of 10%, provided a steady stream of work for its construction and maintenance employees. Without the utilisation of day labour Council would not have had work available for its construction and maintenance employees due to the suspension of its works program. The funds from the works program were diverted to cover the non-reimbursement of the 2010 NDRRA Program overspend. Without day labour, this would've caused an extreme reduction in Council's workforce, approximately 1/3 across the entire region. Not only would this have been devastating for the employees, their families and Council, but the negative impact on the community would've been profound.

Day Labour / VFM Pricing Model will be addressed further within the submission.

Lessons Learnt / Actions Taken

Council's road infrastructure across the region incurred damage as a result of the natural disaster events 2009, 2010 and 2011. In accordance with the Natural Disaster Relief and Recovery Arrangements (NDRRA) Councils are able to seek grant assistance for the restoration of essential public assets.

As a result of the scenario Council was faced with primarily due to the delivery of the 2010 NDRRA Program proactive solutions to rectify the situation for the future, were implemented.

1. Tenders and Contracts for the 2011 NDRRA Program - To ensure full accountability of costs and budgets the following were considered to be procedural changes to the NDRRA approval processes, particularly in relation to tenders and contracts.

2. Designs will be prepared and upon the design being prepared a cost estimate will be prepared - If the design estimate exceeds the approved assistance, then this matter is required to be reported to the CFO who will advise the CEO and Council to resolve for further direction before the

preparation and calling of tenders. QRA approval will be sought on a revised estimate or scope of works.

3. After the closing of the tenders and the assessment of the tenders - If the tender amount exceeds the approved assistance, then this matter is required to be reported to the CFO who will advise the CEO and Council to resolve for further direction before a report is presented to Council for consideration of the approval of the tender. QRA approval will be sought on the tender or a revised scope of works.

4. If upon the above steps being completed satisfactorily, a report is to be prepared for Council with advice of the approved tender.

5. Superintendents and Variations to Contracts - Variations to the approved contract that involves an increase in costs are to be reported to the CFO for approval of the CEO or delegated Officer, who will make the decision as to approve (depending on urgency of the variations) or refer the matter to QRA and Council for approval. The CEO or delegated Officer will report to council at its next meeting of the variances.

6. 2011 NDRRA Program -That reports on the progress of works and costs of the 2011 NDRRA Program be reported to Council on a monthly basis.

7. Council authorised the Chief Executive Officer to review strategies for funding the debt as a result of the 2010 NDRRA program.

The above were the first steps that Council put in place for an enhanced governance framework for the delivery of the 2011 NDRRA Program.

The next steps were then limiting the utilisation of Consultant Engineering firms and contract Superintendents. It was viewed that an overall lack of control by Council lead to a lack of accountability. As a result when cost over runs were identified it was simply too late to retrieve, what is still yet to be explained is how this was not then advised to the Council when the over runs where identified.

While the actions taken had led to an extremely well planned and delivered 2011 program on a revised basis, it should be noted that governance frameworks by Council's need to be implemented for the delivery of programs. The ultimate accountability that sits with the Chief Executive Officer when submitting and signing off on claims requires extensive oversight and knowledge of what is a complex system for claim and reimbursement.

The overall lesson learnt and recommendation from this section of the submission is for Council's to also provide a governance framework that aligns with the quantum of the claim as well as providing milestone reports to Council Meetings for resolution by Council.

These steps and the above recommendation will provide an enhanced governance framework that will at the very least alert senior management and the elected representatives to cost over runs in the early stages of occurrence.

3. Day Labour / VFM Pricing Model

Whitsunday Regional Council cannot advise enough how strongly it advocates for the day labour / VFM Pricing Model, restriction to be removed. As a Council that not only utilised this mechanism to gain better oversight and cost efficiencies for the 2011 Program, but also to correct the financial issues Council was facing at the time.

Should the restriction of Day Labour continue Council's face extreme risk as demonstrated by Whitsunday Regional Council's experience in relation to the 2009 and 2010 NDRRA Programs. Our request is for the commission to consider a specific recommendation removing the restriction on the use of day labour.

Whitsunday Regional Council's Executive Manager of Roads and Drainage has commented on the impact that the restriction of the Day Labour for the 2014 program has had:

"The fact that no day labour is allowed has a demoralising effect on our staff after they have delivered the 2011 NDRRA program so successfully. Our staff have proven that they can carry out the repair work just as well or even better than a contractor. Being a semi remote Council we don't have access to a large number of contractors to ensure competition between suppliers/contractors."

"We have developed good skills during the 2011 program and this will now be lost as there is no continuation of the program for internal resources. Doing work on the NDRRA program was a good incentive for our staff to prove their skills."

For the 2011 Program the below table demonstrates the relatively small cost that day labour had to the entire program. However the overall saving compared to the submission value is extensive.

Year	Recommended Value of Submission	Final Cost	Day Labour	Payment to Date (less Day Labour)
2011	\$ 57,484,330.86	\$ 49,963,481.60	\$3,800,857.81	\$ 43,708,247.68

An example of the semi remote nature of Whitsunday Regional Council has been the delivery of the Western Roads Program that is predominately unsealed. Given the remoteness, during the 2010 NDRRA Program only one contractor tendered for the work and as a result was successful. The work delivered by the contractor was sub standard across the small amount of sealed and then the majority of the unsealed network. This was due to the contractor not understanding local conditions and construction requirements. As a result Council construction and maintenance employees were tasked to "clean up" and "fix up" the sub standard level of work delivered. Additionally Council is now counting the costs on its unsealed network, having to rectify sub standard work years after the event that triggered the claim and rectification works were carried out.

Council requests at the very least semi remote and unsealed road networks be reviewed for day labour consideration and reactivation.

4. Department of Infrastructure and Planning / Queensland Reconstruction Authority

The inception of the Queensland Reconstruction Authority in the wake of the flooding events and TC Yasi in 2011, led to a higher level of co-ordination as to Queensland's Disaster response and recovery. This was absolutely necessary due to the magnitude of damage and devastation that occurred as a result of the events.

However, in the experience of Whitsunday Regional Council the delivery of programs, their approval and their inspection prior to the Queensland Reconstruction Authority was quite unco-ordinated.

The former Department of Infrastructure and Planning as well as the Department of Transport and Main Roads, jointly worked with Whitsunday Regional Council on the 2009 and 2010 programs. This approach saw the on the ground inspections of small elements of an overall program conducted at a local level by the Department of Transport and Main Roads, while claims and acquittals were subsequently dealt with by the Department of Infrastructure and Planning in Brisbane. This lack of co-ordination and cross departmental responsibility saw the 2009 program delivered close to its recommended value, however with ineligible and out of scope works delivered. Even though elements of the program delivered on the ground were given full approval by the Department of Transport and Main Roads at a local level. While these approvals were taken by Council as an overall approval, ultimately this did not constitute an approval of the entire program.

The approach by the Queensland Reconstruction Authority particularly in relation to the 2011 program delivered by Council, has been one of common sense. This common sense and conservative approach has led to collaboration between Local / State and the Commonwealth Governments. This collaboration was overseen by the Project Leadership Team, with a high level of governance resulting in the very best disaster recovery outcome for the community.

It is extremely important to note that without the input of the Queensland Reconstruction Authority in October of 2012, Council's position would have been significantly worse. Additionally it has been viewed in some quarters at a local level that the revision of the 2011 program was a loss in funding of "free money". This could not be further from the reality in that Council once made fully aware of the situation at the highest levels acted responsibly and lawfully to ensure the disaster program was delivered within the guidelines for the event.

Council recommends that a single point of submission, approval, claim and inspection is continued into the future to ensure a co-ordinated and accountable approach to disaster recovery.

5. Future for Council's given the draft report recommendations

Whitsunday Regional Council's experience in relation to NDRRA lends itself to understand why the productivity commission has proposed changes to funding. However, it is alarming to see what will ultimately be a cost shift to local government and the community at a time when they can least afford additional cost.

An example for a community such as Whitsunday Regional Council to have a trigger point threshold change for relief funding at approximately \$2M, from the current \$240 000. This would equate to 2.4% of Council's operating revenue, or 6.1% of Council's general rate. As a way of mitigating the costs incurred from the 2009 and 2010 program Council introduced a levy of a similar quantum as to what the change in the trigger point threshold is proposed to change to. This lead to wide spread angst within the community and a campaign of "lose the levy".

Regardless of the benefit received local communities within regional Queensland simply cannot afford the additional cost. Further reductions of Commonwealth funding as proposed would see the region in addition to the current costs incurred by the Whitsunday Regional Council correlate to a \$15M Shortfall, or an additional cost to each rate payer of \$1000.00

Council does appreciate that the Commonwealth's contribution to disaster recovery is sizeable, however any reduction as per the above would have a profound affect on the community. Ultimately restoration works would not occur or be prioritised on a needs basis. This would stretch out recovery time frames from significant weather events, over years, not months. This then has the ability to cripple a region's economy, its council and its community.

It should be stated that Whitsunday Regional Council has put forward its unique experience over the 2009 / 2010 / 2011 NDRRA Programs. As an example of where a program can cause extreme impacts on a Council should the program not be managed with the required level of governance. To counter this an example where a high level of governance and input from all levels of the Council can be extremely beneficial to a Council's workforce, its community and the entire region.

While not addressed within this submission, but contained within the draft report are insurance, asset management and natural hazard requirements. The ability to insure essential public infrastructure assets in the same manner as private assets, simply cannot be achieved. Additionally asset management planning and natural hazard requirements, while extremely important when assessing damage and mitigating for future events, do not change the unpredictable nature of a significant weather event. While all that can possibly be done is done by Council in relation to the protection of essential public infrastructure. Significant weather events are subject to change and have variability of intensity. A road that may be at the end of its life on an asset register would be washed away in most events, whether it was at the beginning, middle or end of its life. This is the unfortunate reality of significant weather events.

It is recommended that an approach be made in categorising events based on factors such as:

- **Cyclone intensity**
- **Rain fall intensity**
- **Rain fall duration**
- **Flood water velocity (where possible)**
- **Storm Surge velocity and duration**
- **Flash Flooding**

After the establishment of a category based on the probable impact then assessment criteria can be more easily be established on a fair and reasonable basis. An approach such as this can provide comfort to all levels of government in relation to the type and quantum of claim expected.

6. Whitsunday Regional Council's recommendations

As previously highlighted within the submission the below are recommendations from Whitsunday Regional Council's submission for consideration of the Committee:

1. Governance

- Council's are to provide a governance framework that aligns with the quantum of the claim as well as providing milestone reports to Council Meetings for resolution by Council.

2. Regional Day Labour

- Council requests at the very least semi remote and unsealed road networks be reviewed for day labour consideration and reactivation

3. Co-ordination

- Council recommends that a single point of submission, approval, claim and inspection is continued into the future to ensure a co-ordinated and accountable approach to disaster recovery.

4. Event categorisation and claim process

- It is recommended that an approach be made in categorising events based on factors such as:

- Cyclone intensity
- Rain fall intensity
- Rain fall duration
- Flood water velocity (where possible)
- Storm Surge velocity and duration
- Flash Flooding

After the establishment of a category based on the probable impact then assessment criteria can be more easily be established on a fair and reasonable basis. An approach such as this can provide comfort to all levels of government in relation to the type and quantum of claim expected.