

ASSET SUSTAINABILITY

4.3. Asset Rationalisation Process - Implementation Update

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Meeting Date: Thursday, July 22, 2021

Executive Summary:

Cassowary Coast Regional Council's vision is to work collaboratively with community to ensure "We Love the Place We Live". One of Council's key initiatives to put downward pressure on rates and improve the financial sustainability of the region is the asset rationalisation project. This project comes in response to a 2015 Queensland Treasury Corporation Report that identified Council's growing asset base had placed a significant financial burden on the regional community and recommended the rationalisation or disposal of assets that had been earmarked as surplus to requirements.

At its meetings on 21 January and 11 March 2021 Council adopted a series of recommended rationalisation approach for 32 assets. Council officers have been progressing the implementation of Council's resolutions and are now seeking confirmation of the asset rationalisation approach.

Recommendation:

"That Council,

1. Support the asset disposal via tender or auction of the following assets:

- Demountable building Warrina Lakes;
- Old Tully VIC (CRACA);
- Silkwood Tennis Courts and Buildings;
- Employee Housing;
- Innisfail Fishing Club;
- Mullins Hall;
- Tip Byrne Building and Toilet Block (if Tully Pickleball are unable to demonstrate their ongoing commitment to future use of the facility);
- Tully Gem Club;

2. Support the establishment of Leases or user agreements over the following assets:

- Innisfail Men's Shed;
 - Mourilyan Kindergarten;
 - Tully Girl Guides;
 - Innisfail Dance School Building."
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Background:

In 2015 the Queensland Treasury Corporation (QTC) identified that Council's growing asset base had placed a significant financial burden on the regional community. QTC recommended that Council identify options to rationalise or dispose of assets that had been earmarked as surplus to requirements.

In comparison to neighbouring local government areas, Cassowary Coast Regional Council's asset to population ratio is high and contributes to higher rates for the community. The value of Cassowary Coast's asset base per rateable property in 2018/19 was \$73,230 compared to \$42,601 for the Tablelands and \$46,865 for the Hinchinbrook Shire. Recent advice indicates that CCRC's value is increasing. Without change, this will continue into the future with the potential to worsen as Council seeks to provide new and upgraded assets to meet changes in regulation, standards and community need.

As part of the 20/21 budget process Council identified the significant cost to ratepayers that comes with owning \$1.8bn of infrastructure. High level analysis suggested that there are a number of assets within Council's portfolio that may not be providing value to the community as they once did. While it is acknowledged that most assets still have some form of usage the costs to the ratepayer should be

understood and informed, to enable sustainable and financially responsible decisions to be made.

Council acknowledges that this process of change may prove unpopular with individuals, groups and small sections of the community, however it sees this process as an opportunity to redirect funds from low use assets to higher value assets and services.

In determining assets for rationalisation, the following criteria have been used:

- Have limited use or sole use
- Have limited community value (asset serves a very small number of the community, or are underutilised)
- An alternative similar asset/facility or other means of providing the service is available
- Are not fit for purpose. E.g. A building which was once regularly used by a large number of the community is now infrequently used by a small group. A smaller shared facility may be better fit for purpose.
- May not need to be replaced as the service they provide can be delivered through new or other assets.
- The value provided by the asset benefits an individual/business – commercial use
- Assets which provide an inconsistent level or excessively high level of service when compared to other assets within Council's asset networks.
- Assets which compete with other council assets, private assets or businesses by oversupplying the community and impacting on the sustainability of other businesses and private groups.

Throughout the Asset rationalisation process Cassowary Coast Regional Council's has committed to:

- Focusing on decisions that brings benefits to whole community
- Reducing depreciation, insurance premiums and other operational costs to improve its financial sustainability.
- Encourage assets to be shared amongst multiple users/groups to increase utilisation rates
- Work collaboratively with user groups throughout the project
- Support affected user groups during and after implementation of Council's decisions
- Acknowledge that different scenarios will require different responses and options
- Ensure that there is a single point of contact for the project
- Engage affected user groups in a timely and inclusive way

This Project is one of many projects Council is working on towards delivering sustainable services to the Community.

Asset Rationalisation Definition

Asset rationalisation is the action of making an organisation or process more efficient, through the better use of its assets. Rationalisation may refer to a number of options, such as:

- Transfer ownership
- Sell building
- Set lease agreements with clauses that require users and not ratepayers to renew assets
- Change end of life renewal treatments, e.g. concrete to deco
- Remove asset
- Replace with fit for purpose asset
- Increase usage through shared arrangements

Asset Rationalisation Process

To ensure that Council is successful in achieving its commitment to the ratepayer to generate savings, a process to support decision-making has been adopted. Council has engaged with the community in a range of different ways to seek feedback and consider input to the asset rationalisation proposals. There are two main approaches to the engagement process:

1. The Cassowary Coast Community Consultative Group has provided input into Council's asset rationalisation process.
2. Direct engagement with users, clubs and groups that use some of the assets under consideration. Furthermore, a Survey of all known user groups that utilise council assets has been undertaken as well as input from council operations staff on their knowledge of use and asset condition and history.

While the Cassowary Coast Community Consultative Group has provided input into the process their assessment is only one of the inputs for Council to consider in making its decision. Council is solely responsible for making decisions regarding the rationalisation of assets.

Implementation Phase

Now that Council has resolved to adopt the recommended rationalisation approach for all 32 asset presented to council, the implementation phase of the process has begun where the finer details are being worked through for each individual asset. The following principles will be used to guide the implementation phase:

- Council will remain focused on delivering outcomes that benefits the whole community.
- Council is committed to reducing depreciation, Insurance premiums and other operational costs.
- Council encourages assets to be shared amongst multiple users/groups to increase utilisation rates.
- Council is committed to work with users to minimise the impacts where possible albeit the way they use Council infrastructure may change.
- Follow up on affected users after implantation is completed to maintain Council's support.

In accordance with the recommended rationalisation approach and considering the above principles, progress towards the resolved rationalisation option for the following assets has been achieved.

Disposal

The following assets have been identified to be disposed of via tender or auction. An attempt will be made to sell the building in its entirety for relocation otherwise for individual component salvage. If sale cannot be achieved, they will be programed for demolition.

The following are vacant and ready to proceed:

- **Demountable building Warrina Lakes**
- **Old Tully VIC (CRACA)**
- **Silkwood Tennis Courts and Buildings**
- **Employee Housing** – Former caretaker residences at Warrina Lakes, Tully Showgrounds and Pease Park.

The following are not vacant, however are progressing towards disposal:

- **Innisfail Fishing Club** – Feast of the Senses have agreed in principle to relocate to the Innisfail Cultural Complex (ICC) as a shared facility. Upgrades to the ICC are expected to be completed by 30 September 2021 to accommodate them and subsequently vacate the Innisfail Fishing Club building.
- **Mullins Hall** – Agreement negotiations underway to offer shared facility use for the Tully Youth Centre.
- **Tully Gem Club** – Negotiations underway to move the Gem Club to a shared use facility within the Tully & District Kennel Club.

Lease negotiations

Lease templates have been drafted to be utilised for our leasing agreements moving forward. These have been compiled under the principles of the community use of assets and will ensure that council provides consistency and transparency to all lessees.

Utilising the principles for community use of assets, negotiations have commenced to establish ground leases that transfer ownership of the built asset to the lessee. Where this cannot be achieved user agreements are being pursued that promotes shared use and full cost recovery. Progress has been made for the following assets:

- **Innisfail Men's Shed** – Ground lease negotiations are underway.
- **Mourilyan Kindergarten** – Ground lease negotiations are underway.
- **Tully Girl Guides** – Tully Girl Guides have expressed an interest in continuing to use the Girl Guides building and are willing to meet all operating costs. Recommendation is to enter into a short-term agreement to meet all financial liabilities associated with the asset, including asset depreciation, all operating and maintenance costs, general rates and utility service fees. If they are unable to meet all costs, then the building will be sold.
- **Girl Guides - MARCS Park** - Mission Beach Girl Guides have expressed an interest in continuing to use the Girl Guides building. Recommendation to enter into a short-term agreement to meet all financial liabilities associated with the asset, including asset depreciation, all operating and maintenance costs,

general rates and utility service fees. If the group are unable to meet all costs, then the building will be sold.

- **Innisfail Dance School Building** – Innisfail Dance School are now paying rent to Council and rent will be adjusted in January 2022 to the full commercial rate. Innisfail Dance School is now considering its ongoing business plan. If the Dance School vacates the building, it is recommended that the building be disposed.
- **Rowing Club Innisfail** – Enter into a user agreement for the next 12 months with a review after 10 months, based on the reestablishment of their members post COVID.
- **Tip Byrne Building and Toilet Block** – Current and requested users cannot demonstrate principles of the community use of assets that cover the financial liabilities of the assets. Negotiations are underway for Tully Mission Beach Pickleball Club to relocate to an alternative facility. Council officers have had ongoing discussions with Tully Netball, Tully Gym and Trampoline Club, Tully Youth Centre and Gumboot Theatre. Consistent with Council's resolution, officers have required that each club demonstrate their alignment with Council's adopted Principles for the Community use of Assets, ongoing sustainability and ability to meet all financial liabilities associated with the asset. To date, information that would enable officers to recommend that a group be offered a lease has not been provided. There are also other options for use of alternative and shared facilities to adequately meet the needs of the user groups in a sustainable way.

Council has agreed to extend the timeframe by two months for Tully Pickleball to demonstrate its commitment to the principles of community use and to cover the financial liabilities of the asset. If the Club are unable to meet Council's requirements then the asset will proceed to disposal via tender or public auction.

Servicing of TMR Rest Areas

Council officers have been working with officers from the Department of Transport and Main Roads (TMR) over the last 6 months regarding the historic contribution Cassowary Coast ratepayers have been making towards the provision of facilities for fatigue management on the Bruce Highway. Namely through the provision and servicing of assets at:

- Fred Drew Park Rest Area, Belvedere
- Diggers Creek Rest Area, El Arish

Note: TMR currently meet all costs of the facility at Bilyana.

TMR have advised that from July 1 they will meet the costs to service and maintain the fatigue management service under Council's Road Maintenance Performance Contract. TMR have also agreed to support the surrender the road licence at Fred Drew Park and work towards transfer of asset ownership from Council to TMR in future years. This arrangement should see savings for the ratepayer in the order of \$40,000 per annum.

Other Assets

The remaining list of assets identified for rationalisation are still in the initial phases of implementation or are yet to be started due to prioritisation of work. Progress will be reported in future council meetings once rationalisation of these assets has progressed.

Link to Corporate Plan:

COMMUNITY - OUR PEOPLE

What we want to see by 2025

Council working in partnership with the community, to enhance and promote pride in and livability of the region.

Strategic Objectives

- C1 Increase community engagement, consultation, transparency in decision making and ease of access to information

INFRASTRUCTURE - OUR BUILT ENVIRONMENT

What we want to see by 2025

Regional infrastructure that delivers levels of service supported by the community and is financially sustainable.

Strategic Objectives

- I3 Sustainable asset management to effectively deliver services in a consistent and financially sustainable manner representing value to the community
- I4 Rationalised Council asset base

ORGANISATION - OUR TEAM

What we want to see in 2025

A safe, healthy, engaging and inclusive work environment where people are productive, multi-skilled, contribute to continuous improvement and, are provided with opportunities to achieve and develop and are recognised for their contribution.

Strategic Objectives

- O1 Provide leadership that supports creative thinking and innovation as well as desired values and organisational culture
- O2 Commit to open, transparent and accountable governance to ensure community confidence and trust in Council

Consultation:

Management Team and Councillors
Community Engagement Consultant
Cassowary Coast Community Consultative Group
User groups

Legal Implications (Statutory basis, legal risks):

Changes to lease agreements will need to be undertaken in accordance with the Land Act and Regulations.

As the owner or trustee of community land Council is obliged to ensure that any use of the land is conducted safely and in accordance with federal, state and local laws.

Council has given due consideration to the Human Rights 2019 (Qld) in passing any resolution emanating from the recommendations in this paper or otherwise.

Policy Implications:

Compliance with financial management policies and principles as set down in the Local Government Finance Standards and requirements of the Local Government Act and Regulation.

The way in which Council has historically managed the use of parks and facility assets has varied over time and has lacked consistency and transparency. To address these irregularities, Council resolved at its meeting on 12 December 2020 to adopt 15 principles to guide its management of the use of assets by the community into the future. Council also resolved to develop a policy and framework based on the 15 principles. To add clarity to the principles and paint a picture of what they will look like, or not look like in application, examples have been developed to guide the development of the policy and framework.

At the Local government meeting held on the 25 February 2021 Council resolved:

- Adopt the expectations and responsibilities detailed in the attachment;
- Utilise these expectations and responsibilities to guide the development of its Policy and Framework;
- Utilise these expectations and responsibilities in progressing the asset rationalisation project and any other matters that fall within the scope of the community use of assets.

The 15 principles are as follows:

- Asset utilisation – Council manages fewer assets that are of a higher standard and are provided for shared use, providing greater benefit;
- We will support groups that support themselves;
- Ratepayers will support groups who can demonstrate community benefit and are sustainable;
- Council has a low risk appetite for non-compliance with legislation, regulation and policy. We want to partner with groups that comply;
- Groups who receive benefit from Council can demonstrate proper governance and financial management;
- We seek to support clubs appropriately and enable new groups to start while limiting the financial risk to ratepayers;
- If clubs reduce in size we will support them to move to more sustainable arrangements;
- Demonstration of track record, capacity and strategy is required to access greater support from ratepayers;
- We require accountability for agreements and deliverables;
- Clubs with greater access to finance through income generating activities made possible by ratepayer-owned assets should contribute more;
- We will support and incentivise groups to provide assets and services which are not on Council land;
- We expect groups to firstly look to fund ongoing costs through external (grant) funding to reduce costs to ratepayers;
- New or upgraded assets will only be supported where a sustainable business case demonstrates value, benefit and sustainability;
- We expect support and respect from those we support;
- For Profit and State and Federal entities will not be provided with ratepayer direct or in-kind support without a Council resolution;

These principles have been pivotal in the discussion held with user group effected as they have laid the foundation of council's intentions in an open, transparent and consistent manor.

The disposal of all assets will be in accordance with the Asset Disposal Policy, FIN004.

Risk Implications (Corporate, Operational, Project risks):

There may be some negative feedback from individuals, groups or small sections of the community as Council undertakes this process. Through the CCG Council has validated that community are willing to consider a rationalised asset base, sharing of assets and the resultant impact on services as a means of producing downward pressure on rates.

Financial & Resource Implications:

Commitment from Whole-of-Council is required and community consultation will form a crucial part of this process. While there is significant opportunity to make savings, some difficult decisions are required to realise this. It will take a substantial commitment through the implementation phase from Council and staff to progress this process.

Council has a responsibility to provide long-term financial sustainability to the community. It must continuously plan, review and make decisions about the provision of assets and ensure that assets are well utilised and represent value to the community. By making changes that improve sustainability, Council will be able to invest in new infrastructure and improve services that will facilitate growth and improved outcomes for more of the community.

Report authorised by:

David Goodman, Director Infrastructure Services

Supporting Documents:

None