

# NDRRA Road Works in Western Queensland

## *A Value for Money Approach*

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### *Prepared by:*

The Regional Development Australia Townsville & North West Queensland Committee (RDA) on behalf of the Outback, North West Queensland and South West Queensland Regional Roads and Transport Groups



### *Supported by:*

#### **RAPAD**

(Central Western Queensland Remote Area Planning and Development Board for the Barcaldine, Barcoo, Blackall-Tambo, Boulia, Diamantina, Longreach and Winton Councils.)



### *Endorsed by:*



#### **MITEZ**

(Mount Isa to Townsville Economic Zone regional economic development organisation for the Mount Isa, Cloncurry, McKinlay, Richmond, Flinders, Charters Towers and Townsville Councils)



#### **Gulf Savannah Development**

(Regional economic development organisation for Burke, Carpentaria, Croydon, Doomadgee, Etheridge and Mornington Councils)



#### **SW RED**

(South West Regional Economic Development Board for the Bulloo, Murweh, Paroo and Quilpie Shires)

## Introduction

The Outback, North West Queensland and South West Queensland Regional Roads and Transport Groups (RRTGs) represent 21 local government areas across Western Queensland, many of them remote, with small rate bases and a heavy reliance on government funding (refer to **Attachment 1**). The total area covered by these three RRTGs is 1,023,798 square kilometres, which represents 59% of the area of Queensland, with a population of just 73,020 persons - approximately 1.6% of the State population. (*QGSO Regional Profiles*)

A number of local government areas within each of the RRTG regions have been affected by natural disaster events, predominantly flooding, over the last four years. The process of claiming National Disaster Relief and Recovery Arrangements (NDRRA) funding for repairs to road infrastructure, including the eligibility of certain expenditure such as day labour costs, has changed a number of times over that time period; as has the State government interpretation of the eligibility criteria.

Apart from this uncertainty, one of the biggest issues raised by each of the councils that have needed to lodge claims for NDRRA funding is the ineligibility of day labour costs, that is, the cost to Council to use existing employees to undertake NDRRA works.

The ineligibility of day labour costs has led to a situation where councils have been forced to engage contractors to undertake the NDRRA works. Due to the remoteness of many of the western shires, and the inability to source local qualified independent (non-Council) contractors, the work has gone to contractors that have charged significantly higher rates than would have been required for the councils to undertake the work.

In alignment with the RDA objective to develop long term sustainable communities, this RDA report is prepared to reinforce the position of the western RRTGs and draws upon input from a range of independent reports and submissions that have been completed by RRTGs and individual councils.

## Outback RRTG

A report prepared for the Outback Regional Roads and Transport Group into opportunities to achieve Value for Money in NDRRA works, which can be found in **Appendix 1** of this report, highlights the challenges experienced by rural and remote Shires when faced by prescriptive eligibility criteria for reimbursement of NDRRA expenses.

The exclusion of day labour forces councils to utilise contractors to complete the works. Local independent (non-Council) contractors in these remote areas are rarely geared up to undertake civil infrastructure projects, due to the lack of a market for this type of work, and lack the qualifications / certifications required to undertake the work without supervision from Council. Larger civil contractors from outside the region are reluctant to tender for works in these areas due to the high cost of mobilisation, travel and accommodation with little prospect of long-term markets. These costs, when passed on to councils, then compromise the ability to achieve value for money.

The report provides three case studies that provide further evidence that the use of Council day labour in rural and remote areas generally provides superior value for money to the use of external contractors. The Longreach example, using data from the 2011 and 2012 events, shows up to 28.9% saving from the use of Council crews for specific road treatments and a potential saving of \$101,000 in project management costs.

While we acknowledge the need for a prescriptive NDRRA framework for control purposes, the framework needs to accommodate differing circumstances to ensure remote shires can achieve Value for Money for the State without disadvantaging their ratepayers.

### **Boulia Shire Council**

A case study prepared for Boulia Shire Council, which is attached in **Appendix 2** of this report, showed that outsourcing of project management and finance functions for NDRRA works relating to the flood event in February 2014 would have a significant impact on the cost of the reconstruction project.

A detailed cost comparison showed that the cost of undertaking Finance functions using external contractors would cost 204% or \$161,000 more than Council providing those services using staff who live and work in Boulia, and that the cost of using external contractors to undertake the Program Management functions relating to the flood damage works would be in excess of 140% or \$361,000 more than using Council resources.

*Program Management for flood restoration works in remote areas requires long term local knowledge to achieve real value for money. Without local knowledge and skills, the risk of jobs going over budget or failing inspection is significantly increased and the goal of best value for money is also compromised as external contractors would require constant and considerable consultation with Council's road works supervisors to complete the works within a reasonable timeframe.*

### **Diamantina Shire Council**

In their submission to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements, which can be found in **Appendix 3** of this report, Diamantina Shire Council argued that the exclusion of day labour costs would compromise the Council's ability to maintain a suitably skilled workforce and their ability to justify the purchase of machinery, which could be used year-round.

### **Winton Shire Council**

In its submission to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements, which can be found in **Appendix 4** of this report, Winton Shire Council congratulated the Commission for "expressing succinctly what all Western Queensland Councils have been trying to tell anyone who will listen and that is that the inability to claim for day labour has led to inefficient outcomes and wasteful spending".

### **Longreach Regional Council**

In its recent response to the Draft Productivity Commission Report into Natural Disaster Funding, Longreach Regional Council proposed that "local government be given the opportunity to tender for NDRRA works", and that "if an independent body, such as the Queensland Department of Transport and Main Roads, were to administer contracts through an open tender process, Council would be willing to compete with other private contractors."

### **North West Queensland RRTG**

A table showing NDRRA Day Labour Cost information for each of the local government areas within the North West Queensland RRTG region can be found in **Appendix 6** of this report.

This data shows that for NDRRA projects on Council roads within the NWQ RRTG region in 2011, day labour represented, on average, 20% of the cost of the work undertaken.

Ineligibility of day labour costs has meant that these Councils have had to absorb these costs into their annual maintenance budgets, which has a detrimental effect upon their regular maintenance schedules, thereby reducing the safety and reliability of local roads.

### Mount Isa City Council

Anecdotal information provided by Mount Isa City Council (MICC) indicates that the discontinued use of day labour to undertake NDRRA work has resulted in Mount Isa City Council having to reassess its rural works crew, reducing crew strength significantly:

- Two crews, totalling 14 employees, including two Team Leaders has now been reduced to one crew, consisting of four employees and one Team Leader;
- The rural grader fleet has been reduced from three units to two units and Council is currently assessing a further reduction; and
- Camp facilities have been reduced from four units to one unit.

*The reduction in MICC's full-time staff to give way to outside contractors means that 10 full-time resident employees, along with their families have exited the region. The exclusion of Council day labour contributes to the destabilisation of the permanency of the Shire's long-term work force and resident population. The engagement of contractors for NDRRA works contributes little to the Shire's economy with much of the work carried out in remote areas of the Shire with the contractors operating from remote camps, much like 'Fly-in Fly-out' arrangements.*

*Rates charged by contractors include a risk and profit element and Council has commonly seen prices submitted by external contractors inflated by up to 40% above Council's estimated prices using local elements or day labour.*

## South West Queensland RRTG

### Quilpie Shire Council

After the February-March 2012 Monsoonal Flooding Event, Quilpie Shire Council approached the Queensland Reconstruction Authority with an application for day labour expenditure, demonstrating that the use of external contractors cost, on average, 19% more than using Council's contracting team (see **Appendix 7**).

Based on a recommended value for each submission related to that event, a comparison of cost variances for jobs where Council day labour was eligible against those jobs where external contractors were used showed that, while the Council jobs resulted (on average) in a 22% overspend, the contracted jobs resulted in an average overspend of almost 41%. In dollar terms, that represented a difference of more than \$1.4million.

### Murweh Shire Council

In its submission to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements, while not dealing separately with value for money matters, Murweh Shire Council endorsed submissions by the LGAQ, QRA and other councils that called for the eligibility of day labour costs.

## Conclusion

It is clear, from the data and anecdotal evidence presented, that the ineligibility of day labour costs for NDRRA projects has been a particular and significant impost on Councils across Western Queensland; eating into regular road maintenance budgets and schedules, jeopardising the stability of permanent workforces and plant holdings, and depriving Council workers of valuable experience.

Engagement of external contractors to undertake NDRRA works, to maximise the claimable value, has also proven to increase the overall cost of these projects, wasting taxpayer funds and making true “value for money” difficult to achieve.

Eligibility of day labour costs would enhance the following outcomes for all three levels of government and communities:

1. Value for money
2. More effective planning and implementation of NDRRA works
3. Workforce certainty and stability, and retention of skills within Councils
4. Stability of local communities that are threatened by population decline
5. Certainty for investing strategically in equipment

We strongly recommend that the government consults closely with Councils and considers a change to the eligibility of day labour costs for future NDRRA works, particularly for remote and rural areas in Western Queensland. We recommend that consideration be given to enabling Councils to tender for local NDRRA and other road works that would enable them to demonstrate the advantages of using their own resources to complete these works. Better value and regional sustainability outcomes will be achieved through taking such a place-based approach to the NDRRA rather than an approach that suggests one model suits all.

## Appendices

1. *Opportunities to strengthen the Central West Region through the Natural Disaster Relief and Recovery Arrangements (NDRRA)*, MWH, 05/06/2014
2. *Boulia Shire vs Contractors – Value for Money: A Case Study – Weighing up the Options*, Boulia Shire Council, 24/10/2014
3. *Comments from Diamantina Shire Council to Productivity Commission Draft Report - Natural Disaster Funding Arrangements*, Diamantina Shire Council, 24/10/2014
4. *Submission to Productivity Commission Draft Report – Natural Disaster Funding Arrangements*, Winton Shire Council, 16/10/2014
5. *Response to the Draft Productivity Commission Report into Natural Disaster Funding*, Longreach Regional Council, 20/01/2015
6. *NDRRA Day Labour Costs*, North West Queensland Regional Roads and Transport Group, March 2011
7. *Letter to Queensland Reconstruction Authority regarding Day Labour Costs*, Quilpie Shire Council, 01/09/2014

## References

*Queensland Regional Profiles: Resident Profile for SWQ RRTG Region*, Queensland Government Statistician’s Office, Queensland Treasury and Trade, 27/01/2015

*Queensland Regional Profiles: Resident Profile for NWQ RRTG Region*, Queensland Government Statistician’s Office, Queensland Treasury and Trade, 27/01/2015

*Queensland Regional Profiles: Resident Profile for Outback RRTG Region*, Queensland Government Statistician’s Office, Queensland Treasury and Trade, 27/01/2015

