

ASSESSMENT OF THE BOROUGH OF QUEENSCLIFFE'S BUSINESS CASE FOR FUNDING OF THE 'DESTINATION QUEENSCLIFF' QUEENSCLIFF LIGHTHOUSE PROPERTY DEVELOPMENT

REVIEWED IN CONTEXT OF THE NATIONAL STRONGER REGIONS FUND (NSRF) GUIDELINES, VICTORIAN GOVERNMENT'S INVESTMENT EVALUATION GUIDELINES AND OTHER GOVERNMENT POLICIES

OBSERVATION 1 – NON-COMPLIANCE WITH NSRF GUIDELINES

The Queenscliffe Council's Business Case has various critical areas of non-compliance with the NSRF Guidelines which should have made it ineligible for funding. Many of the non-compliance issues will be considered in detail further in this report.

NSRF NON-COMPLIANCE 1: BOTH CO-FUNDING AGENCIES HAVE NOT INDICATED SUPPORT FOR ENTIRE PROJECT

A key concept of the NSRF funding is that any project must have dollar-for-dollar funding provided by sources other than the Commonwealth. Co-funding is intended to demonstrate each party's commitment to the project and show evidence of community support. In this case the Queenscliff Council has rolled together disparate capital works under the banner of 'Destination Queenscliff'. In a simplified analysis, the project has two main elements with approximate equal costs. Firstly, upgrade of the Queenscliff Sport and Recreation Precinct (\$3.15M), and secondly, new property development on Shortland's Bluff and works around the Fort (\$3.49M).

At the last Victorian State election, the then Labor Opposition (now the State Government) made an election commitment to fund the upgrade of the Queenscliff Sport and Recreation Precinct. The Council was invited to apply for the \$3.15M funding commitment through the State Government's Community Sports Infrastructure Fund. Council signed the funding agreement in June 2016 and received its initial payment of \$1 Million in July 2016 – well before the NSRF funding was announced.

The State Government's support does not extend to the new tourist houses or the works around the Fort. The funding confirmation dated 15 March 2016 by the Department of Health and Community Services and included in the Business Case, clearly states the \$3.15M funded via Sport and Recreation Victoria is fundamentally a sports infrastructure grant as it is only for:

- the community gymnasium and associated facilities in the Monahan Centre
- new netball courts
- better cricket facilities
- improved lighting
- new car parking
- upgrade of the playground and the removal of redundant buildings
- upgrade the ageing caravan park facilities.

There is no mention of any other works (such as property development) even though the Department of Health and Community Services is aware of the Council's application for NSRF funding. It is logical that in order to be regarded as a true co-funding approach that all partners should approve all aspects of the project. As it currently stands, the State is funding the Sport and Recreation element and the Commonwealth the new houses and works around the Fort.

NSRF NON-COMPLIANCE 2: HALF PROJECT BUDGET RESULTS IN NO INCREASE IN BUSINESS ACTIVITY

The Business Case Appendix J Page 9 notes there will be no economic benefit from the upgrade of the sporting facilities or caravan/camping sites with the Council's consultants noting such works "*are generally improvements to existing facilities and not expected to have significant impact on drawing new visitors to the area*". Appendix G shows the cost of the upgrade of the Sport and Recreation area will cost \$3.155M.

The NSRF Guidelines (S.4.4) are clear that “the replacement of existing infrastructure will only be eligible where there is a demonstrated significant increase in productivity” and (S.4.5) “The NSRF will not fund infrastructure projects which... do not deliver sustainable economic benefits, including job creation”. This is reiterated in the Program Guidelines - BBRF - Infrastructure Projects Stream November 2016 P.11 which states it is ineligible to spend grant monies on “repair or replacement of existing infrastructure where there is no demonstrated significant increase in benefit”. In effect, this means almost half of the total project cost of \$6.99M should not have received NSRF funding as it will not meet several of the key outcomes of the programme namely:

- improved level of economic activity
- increased productivity
- increased employment

The Queenscliff Council has effectively leveraged off a State Government grant to get the Commonwealth to invest in a non-performing asset upgrade, surely a contradiction of the NSRF Guidelines which states “The NSRF will not fund infrastructure projects which... shift costs from state, territory or local governments to the Commonwealth”.

NSRF NON-COMPLIANCE 3 – MERIT CRITERION 1 – ECONOMIC BENEFIT NOT MET - OVERSTATED EMPLOYMENT:

The NSRF Guidelines S.6.1 require demonstrated economic benefits for a region such as increases in economic activity, improvements in productivity, wider access to markets or fairer and more equitable economic outcomes. The Business Case Appendix J Page 9 notes there will be no economic benefit from the upgrade of the sporting facilities or caravan/camping sites (noting February’s Queenscliffe Council minutes confirm there will be fewer sites due to safety compliance). Therefore, almost half the project cost (\$3.15M which is being funded by the State Government) has no real economic benefit. With the remaining \$3.49M investment in tourist accommodation on Shortland’s Bluff and works around the Fort, predictions of ongoing employment are remarkably optimistic.

The Business Case (see table below) proposes there will be 19 full time jobs created in Victoria, therefore by deduction, the origin of this employment comes from:

1. 6 new tourist units on Shortland’s Bluff, and
2. Pathways around the Fort wall with up-lighting and wall projections.

The Business Case confirms the management of the accommodation will be undertaken by Council. Again by deduction, the staff management of the 6 units will be clearly incorporated into existing Council services as total operating costs for both the units and the Fort path & lighting totals \$207,000 per year inclusive of all salaries, landscaping, repairs & maintenance, insurances, utility charges (gas & electricity), cleaning, bedding & linen service etc (Refer Appendix H). Given these

2.3.2. ECONOMIC IMPACT

Based on the increase in visitor expenditure, the on-going economic impact of Destination Queenscliff Stage 1 will provide a total economic output of \$1.95 million and support 13 jobs (FTE) at the regional level (Borough of Queenscliffe)

At the State level, the economic impact is expected to generate \$3.59 million economic output and 19 jobs (FTE).

TABLE 10 ECONOMIC IMPACT DESTINATION QUEENSCLIFF OPERATING PHASE (STAGE 1)

		Output	Employment (FTE)
Regional Economy – Borough of Queenscliffe	Direct	\$1,475,700	10
	Indirect	477,000	3
	Total	\$1,952,700	13
State Economy – Victoria	Direct	\$1,475,700	12
	Indirect	\$2,109,000	7
	Total	\$3,584,000	19

costs, it is estimated the salary component could be only \$25,000, say 0.3 EFT (taking into account salary plus on-costs). This means 18.7 full time jobs are assumed to be created in the private sector to service the visitors to the units (non-accommodation needs only) or those viewing the Fort wall lighting and projections. This estimate seems highly exaggerated, if not unrealistic, and have not been unsubstantiated in the Business Case. Additionally, as will be discussed below, in the likely absence of increased demand, new accommodation will simply dilute existing supply. The Business Case is silent on potential job losses from marginal accommodation providers who already struggle for business in the off season.

NSRF NON-COMPLIANCE 4 – MERIT CRITERION 2 – SOCIAL BENEFIT NOT MET

The NSRF Guidelines S.6.2 state bids must demonstrate social benefit to the region during and beyond the construction phase. The analysis provided in this document shows this has not been achieved which can be seen by evaluating the project against various desired NSRF outcomes:

1. *Making a region a more attractive place to live.* This is disputed as the Shortland's Bluff housing development will require considerable loss of well-established native vegetation, to be replaced with houses. The wider Queenscliff area has already shouldered its share of new housing with 600 houses in the Moremac development and almost 50 on the Lonsdale Golf Club. The Council's proposal would see the loss of further public open space.
2. *Improving community connections and social inclusion.* This is disputed as the Shortland's Bluff housing development was unequivocally rejected by the community. There is ongoing and widespread dislike of the Council's proposal for the construction of new housing on Shortland's Bluff for reasons such as lack of consultation, unfair competition, loss of public open space, flawed business case and even interference with navigational aids.
3. *Supporting or protecting local heritage and culture.* This is disputed as the housing on Shortland's Bluff contradicts numerous elements of the Victorian Coastal Strategy (VCS) which many people thought would be sufficient to protect this important parcel of land. The VCS states new development, reuse and redevelopment on the coast must have, *inter alia*, a demonstrated need to be on the coast and protect culturally significant places. The proposed property development fails both of these hurdles. It is quite inappropriate to see a critical parcel of Crown Land that abuts the Fort and historic lighthouses lost as open space. The cabins would be intrusive and visually discordant in context of the area's remarkable historic buildings – this is critical considering the Commonwealth Department of the Environment & Energy is presently considering a National Heritage proposal which directly links Point Lonsdale's maritime and defence heritage with Fort Queenscliff/Shortland's Bluff and Point Nepean.
4. *Strengthening community institutions, governance and leadership capacity.* Not achieved
5. *Increasing community volunteering.* Not achieved
6. *The degree to which the project delivers benefits beyond the construction phase.* With an 11+ year payback this project cannot be regarded as a value for money investment. The Council has not undertaken any meaningful options analysis that would validate the need for additional housing.
7. *Addresses disadvantage within the community.* Quite simply, Queenscliff is not disadvantaged. The unemployment rate is 2.8%, measures of wellness are amongst the highest in Victoria and the median housing price is \$752,500 (the second highest on the Surf Coast behind Barwon Heads). To claim this area is disadvantaged disrespects those areas which actually are.

OBSERVATION 2 – INADEQUATE STRATEGIC ASSESSMENT

The Queenscliff Council's Destination Queenscliff Business Case unnecessarily links, and thereby confuses, two separate issues:

1. How to increase tourism and employment opportunities in the Borough
2. What, if anything, should happen to the Queenscliff Lighthouse reserve.

The origin of this problem is the Council's overly simplistic strategic assessment process (i.e. defining what is actually trying to be achieved). Because the basic concept work has not been adequately undertaken, it has negatively affected the assumptions and conclusions made in the Business Case.

To facilitate appropriate capital investments are made, the Department of Treasury & Finance's (DTF) Investment Management Standard methodology provides the framework for assessing projects. The preliminary task is to undertake a strategic assessment to identify a specific need, its scope, objectives, success criteria, the level of uncertainty surrounding a possible investment and, importantly, whether there are non-asset alternatives.

The point of doing this analysis in a logical, but broad way, is to make sure the 'problem' is understood so solutions are identified and assessed before progressing to more detailed evaluation and an eventual Business Case.

Applying DTF's Investment Management Standard tools indicates a strategic assessment was not adequately undertaken. Insufficient data and questionable conclusions have flowed through to the Business Case thereby creating doubt for decision-makers that critical attributes of the project were adequately considered. Some of the main areas of concern relate to the following assessment criteria:

- **The need for additional accommodation and the service level to be satisfied:**

In the Business Case, the Queenscliffe Council has not clearly articulated the problem it wants to address. It states there are three challenges:

1. Firstly, older people dominate the Borough population - it is ranked second for the share of over 65 year olds of all 563 LGAs in Australia in 2011
2. Secondly, the size of the Borough's economy has been shrinking in the last decade, reflecting in large part the aging of the population.
3. A third unusual element of the Borough's economy is its increasing reliance on tourism for employment as other areas of industry decrease.

These are observations, not challenges or problems. In the Council's publication 'Infrastructure Asset & Service Management Plan Part 'A' – General Information' it states *"Population growth within the Borough of Queenscliffe is minimal. Redevelopment of existing allotments is occurring. Demand for new infrastructure is minimal with the greatest pressure for Council being to sustain existing assets in the outstanding urban environment that is Queenscliff."*

It is paradoxical that the Council states its greatest pressure is to sustain assets then proposes the construction of more assets to add to maintenance obligations. It is notable under S.15(1)(e) and 15(1)(f) of the Crown Land (Reserves) Act 1978, revenue raised from Crown Land should be reinvested in the subject land, not be incorporated into a Council's overall budget, so new housing on Shortland's Bluff will not assist with asset management in the wider Borough.

- **How the proposal relates to achieving government priorities and outcomes:**

The Business Case states (P.1) the project will address four issues confronting the Borough which have an increasingly negative impact on business viability and community wellbeing:

- a decline in tourism visitation
- deteriorating assets
- a reduction in local employment opportunities
- fluctuating seasonal demand

If the Council's objective is to attract more tourists and create more jobs, then in the strategic assessment phase, the investigation should have been more wide reaching i.e. uncoupled from considering whether an asset-based solution is optimal.

Put simply, the Business Case fails to provide any meaningful research about what is causing the four issues, the extent of business failures in the Borough or how community wellbeing is trending. In the absence of data and analysis it is a non-sequitur to leap to the assumption that any of the proposed project works will drive tourism, business, employment or wellbeing. Indeed, there is evidence the new Government owned and operated accommodation will directly compete with existing accommodation providers, thereby having a negative impact on their business viability, wellbeing and act against the goal of "economic diversification" (P.2).

The Council has confused what it is trying to achieve by lumping together disparate project elements (paths, lights, sporting facility enhancements, new accommodation, camping ground upgrades, roadway improvements, lookouts etc) which have different demand drivers and entirely separate social or economic outcomes. Consequently the Business Case at a basic level fails to demonstrate

how specific project elements will address these four issues. The Business Case has seemingly pre-empted that the nominated works will solve asserted problems but no metrics (measurable KPIs) are provided to justify the selection of works.

This approach has unnecessarily constrained the review and prevented the identification of alternative strategies which may have a generated better outcome. The Business Case fails to analyse what drives current tourism, and critically, what could drive additional tourism outside the summer boom period when local businesses struggle. If this is considered in context of a basic marketing plan it would be expected detailed analysis (with metrics) would be provided of:

- Product –What are visitors actually interested in? What tourism products can visitors experience in the Borough? What are potential new products? Is heritage relevant and can it attract tourists? What experiences are visitors who travel outside peak times actually seeking and how can this be maximized?
- Pricing – What accommodation pricing mix is in the Borough already? What gaps are there? Which segment provides the most return on investment? How profitable are current businesses? How elastic is the demand? Can Council charges be changed to stimulate demand or increased to maximize returns.
- Promotion – What marketing and other non-asset strategies would be effective in increasing non-peak visitation? What marketing campaign would work best? How much would it cost? What would the expected benefit be? Can Council assist the private sector?

The Business Case is silent on any surveys or detailed assessment of these important matters. Instead the proposal is to add further accommodation without actually having a strategy to attract visitors out of high season. The Business Case Page 6 makes the motherhood statement “*Every destination needs new reasons (products and services) to visit*” In this context the Business Case overlooks how it is proposed to differentiate Queenscliff from any other coastal town. It notes “Well-preserved heritage buildings are one of the key tourism assets for the area.” Despite this, heritage-related expenditure is only around 10% of the overall \$6.99M budget (Refer table below from Appendix J). If indeed heritage is an important driver for tourism then the investment mix is badly skewed.

Fort Queenscliff Activation		
Fort Wall Walk	\$150,000	
Uplighting	\$200,000	
Projections on Fort Wall	\$350,000	
Hesse Street Activation	-\$200,000	
Sub-Total Fort Queenscliff Activation	-\$700,000	\$700,000

- **How urgent or critical the potential initiative is to government:**

While tourism may be increasingly important, it only contributes 17.5% to total economic activity (Refer Business Case Page 3). Similarly, unemployment in the Borough is very low. The Council’s claim that “*There has been a seismic shift in industry structure and employment due to the scaling back of the Defence force personnel at Fort Queenscliff (loss of 400+ FTE jobs), the changing nature of the fishing industry and the decline in marine science research*” is again an observation but it is vague and meaningless and does not in itself provide the rationale for a considerable share of \$6.99M in grant monies being spent on accommodation. Statistics provided by the Australian Government’s Department of Employment - Small Area Labour Markets - September Quarter 2016 – shows Queenscliffe’s unemployment rate is only 2.8%. This confirms that the Borough is basically a retirement area with a cohort of commuters who work in other areas. There is no evidence provided to support Queenscliff Council’s necessity to intervene in the job market with a macro-economic job creation scheme.

The Council also makes the claim in its National Stronger Regions Fund application (Refer Criteria 2 Page 3) that “tourism visitation, deteriorating assets, a reduction in local employment opportunities and fluctuating seasonal demand which when combined, is having an increasingly negative impact on... community wellbeing”. Once again, not only is there no evidence provided to support this claim but it contradicts the Council’s own publications and Victorian Government research. The following extract from the Council’s Health and Wellbeing Plan 2013-17 (Page 8) points out that wellbeing in the Borough is indeed high:

“When compared to the whole of Victoria, people living in the Borough have a significantly higher rating in the following areas:

- *Volunteering (highest in Victoria) - 36% of the permanent population report doing some form of voluntary work, which is substantially higher than the Victorian average of 17.7%*
- *Citizen engagement - 61% compared to the Victorian average of 50.5%*
- *Are more likely to attend arts activities and cultural events - 77.6% compared to the Victorian average of 63.6%*
- *Feel much safer walking alone during the day and at night (highest in Victoria) - 93.5% say they are safe walking at night compared to the Victorian average 70.3%*
- *Are the most likely to visit green spaces regularly (highest in Victoria) - 79.3% compared to the Victorian average of 50.7%*
- *Subjective wellbeing - 81.5% compared to the Victorian average of 77.5%. (source: VicHealth Indicators Survey 2011)*

Other relevant state government surveys highlight that people:

- *Have higher rates of attendance at Maternal and Child Health services*
- *Have significantly less crime against the person proportional to population*
- *Experience less transport limitations - 15.5% compared with the Victorian average of 23.7%.”*

The Council’s unsubstantiated claim that wellbeing in the Borough is diminishing is directly refuted by the VicHealth Indicators Survey 2015 Results which concludes community wellbeing in Queenscliff is amongst the highest in Victoria:

“General wellbeing - Queenscliffe Borough residents reported significantly greater wellbeing than all Victorians. Residents gave their wellbeing an average score of 84.0 out of 100, compared with the Victorian average of 77.3. There has been no significant change in subjective wellbeing for Queenscliffe between the 2007, 2011 and 2015 surveys.”

Life satisfaction measures how people evaluate their life as a whole. When asked to rate their general satisfaction with life on a scale from zero to 10, residents of Queenscliffe reported an average score of 8.5. This is significantly higher than the Victorian life satisfaction average score of 7.8.

Safety - Most (97.8%) Queenscliffe residents agreed that they felt safe walking alone during the day, which is significantly more than the Victorian estimate (92.5%). Almost eight out of 10 (78.1%) Queenscliffe residents agreed that they felt safe walking alone in their local area after dark, which is significantly more than the Victorian estimate (55.1%). There has been no significant change in perceptions of safety for Queenscliffe between the 2007, 2011 and 2015 surveys.”



- **Key stakeholder management and associated essential agreements:**

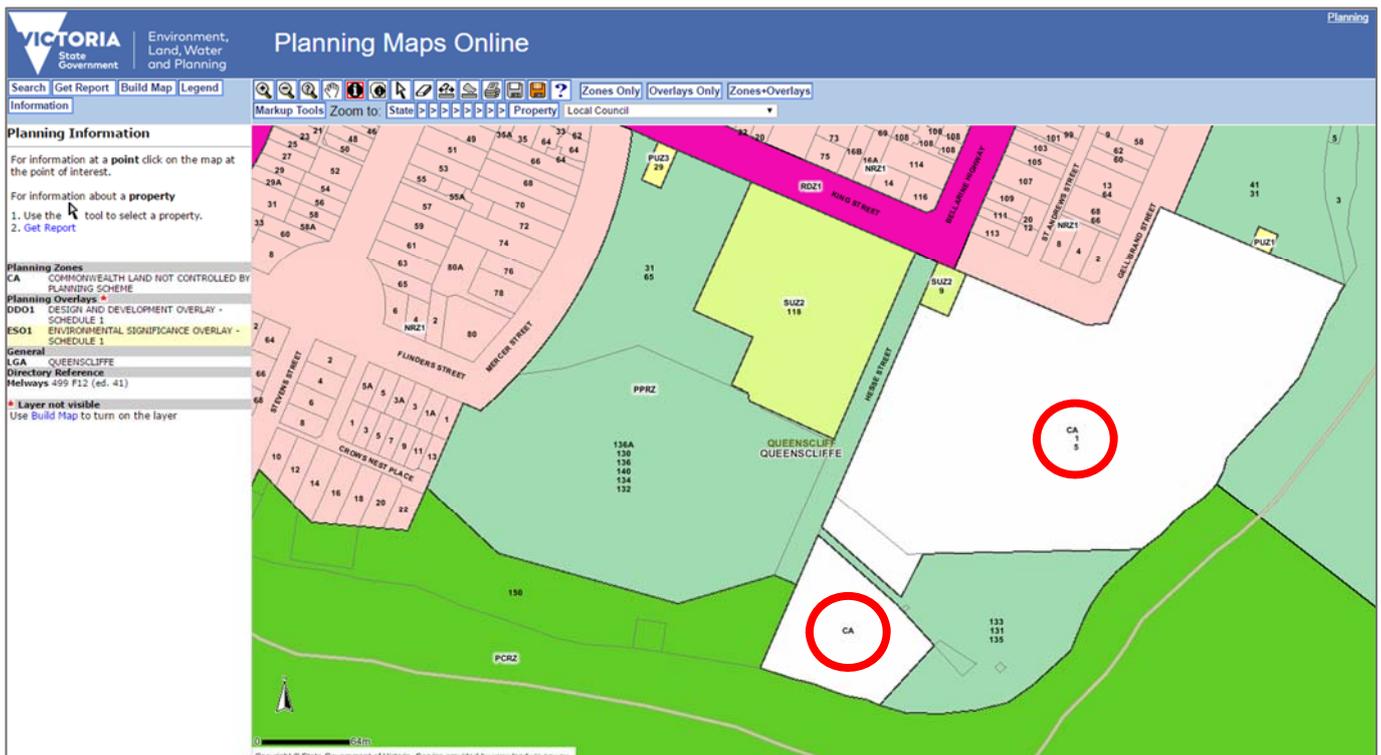
A glaring omission in the Business Case is that it does not adequately identify stakeholders or their role in the project – on Page 9 it is stated “*the Stakeholder Group will be comprised of key Council staff and stakeholder representatives including, but not limited to, a member of the Queenscliff Community Sports Club, a member of the adjoining Queenscliff Bowls, Tennis and Croquet Club and a caravan park management representative*”.

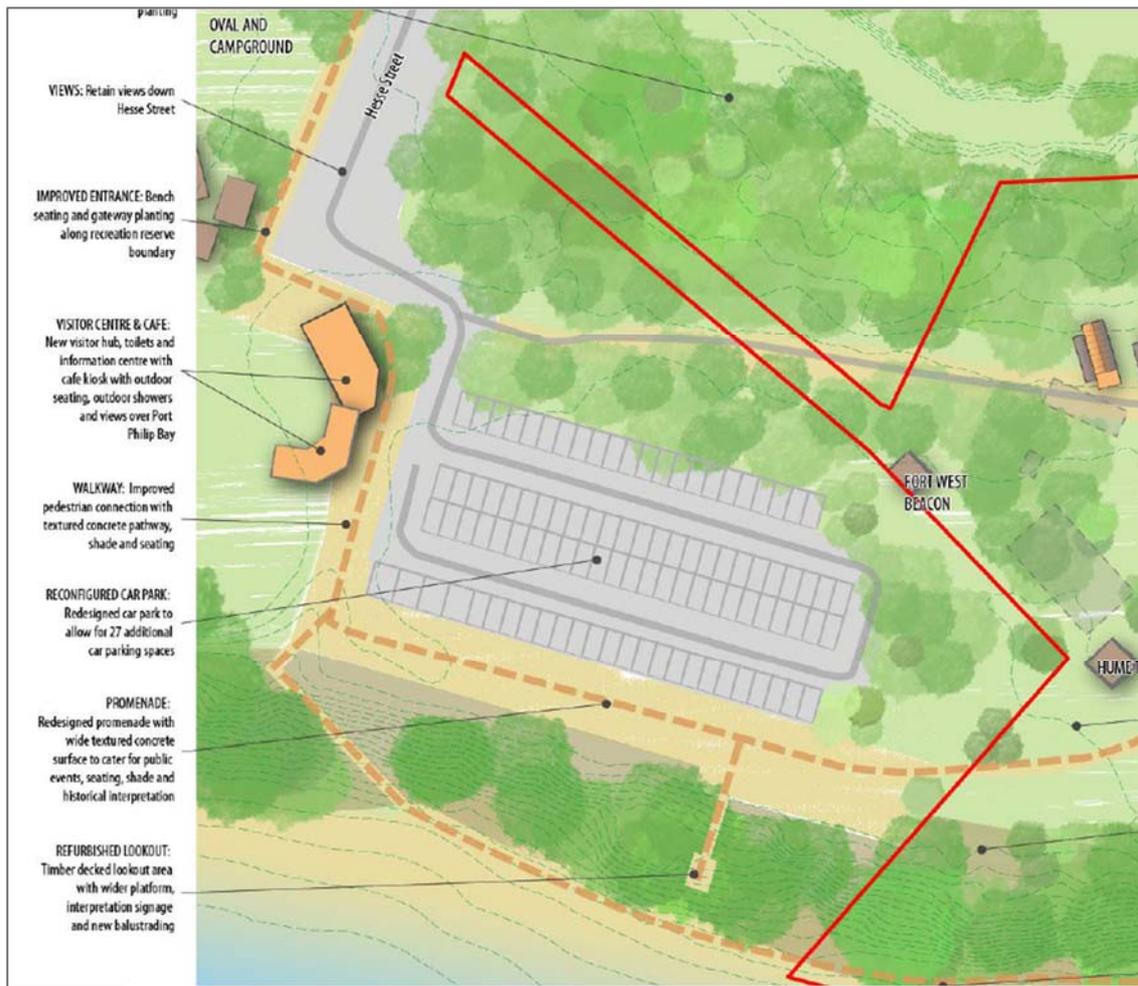
No mention is made in the Business Case of what consultation has already occurred and what each stakeholders’ involvement would be. It would have been reasonable to assume stakeholders should also include ratepayers, Councillors, other businesses in the Borough, DELWP, Department of Infrastructure and Regional Development and users of the navigational aids on the Lighthouse Reserve.

It is also notable the Business Case makes no mention of consulting with the Federal Government about proposed works on Commonwealth land. The two plans below indicates the Commonwealth remains in control of a substantial portion of the Shortland’s Bluff area (marked ‘CA’ on the upper plan) which would be impacted by proposed works – refer to lower plan.

It is understood there has been no agreement reached with the Commonwealth regarding any of the construction activities included under the “Fort Queenscliff Activation” sub-project which would occur on Commonwealth land, specifically;

- the perimeter Fort wall walk
- wall up-lighting
- projections on the Fort wall
- Hesse Street upgrade insofar as it intrudes upon adjoining Commonwealth land to the east
- reconfiguration of the car park
- refurbished look out area
- new walking track to the Fort
- Café & Visitor hub





In short, the Business Case is predicated on spending \$2.25M without agreement of the land owner. (Refer table below extracted from Business Case Appendix G).

Value of works on Commonwealth Land			
Sub-Project	Item	Cost	Totals
Lighthouse	Car park	\$ 93,025	
	Refurbished lookout	\$ 48,900	
	Walking track to Fort	\$ 119,400	
	Ship Viewing area	\$ 21,200	
	Café/Visitor Hub	\$ 525,000	
	Fort Walk wall	\$ 150,000	
	Up-lighting	\$ 200,000	
	Sub-total	\$ 1,157,525	
	Detail design - 7%	\$ 81,027	
	Contingency - 10%	\$ 115,753	\$ 1,354,304
Fort Queenscliff	Fort Wall Walk	\$ 150,000	
	Up-lighting	\$ 200,000	
	Projections on Fort wall	\$ 350,000	
	Hesse Street upgrade	\$ 200,000	\$ 900,000
			\$ 2,254,304

The value of the proposed capital works on Commonwealth land is considerable and represents about 50% of the Queenscliff Lighthouse Reserve works and likely 100% of the Fort Queenscliff

Activation works. This would seem to contradict the application requirements of the National Stronger Regions Fund (NSRF) Guidelines of 13 May 2015 (Refer S.4.6) which state it is mandatory for grant requests exceeding \$1M to have written confirmation of all in-kind contributions (noting that the use of land owned by another agency is classified as a 'contribution'). It is also a remarkable shortcoming not to have key agreements with the Commonwealth in place as the NSRF grants are conditional upon projects being completed within 12 months of executing the grant agreement with the Commonwealth and by 31 December 2019. Experience shows inter-Governmental agreements can take months to finalize.

Needless to say, the purpose of identifying stakeholders is to ensure those who have an involvement in the project (e.g. funding, management/delivery or impact) are considered/consulted. Failure to do this can cause significant downstream social, political and operational blowback.

OBSERVATION 3 – INADEQUATE OPTIONS ANALYSIS

Under DTF guidelines (Refer: S.3 Economic Evaluation Technical Guide V102 August 2013), a base case, do nothing, should have been prepared. The purpose of the base case is to establish a realistic option that involves the minimum expenditure to sustain existing standards of service delivery or to achieve previously agreed service standards. The base case does not always mean 'do nothing'; rather it is the minimum essential expenditure option (e.g. carrying out obligatory works to meet safety and health regulations). Without the base case, there is no minimum benchmark against which other options can be compared.

Instead, in the Queenscliffe Council's Business Case only two options have been considered:

- Landscape improvements to the Queenscliff Lighthouse Reserve
- Property development on the Queenscliff Lighthouse Reserve (initially 6 houses with the objective of increasing this to 10).

As noted above, the Queenscliff Council's confusion about what it is trying to do has unnecessarily restricted its consideration of options and it is easy to conclude the Council has predetermined that its objective of improving economic output and employment opportunities is best met by tourist visitation linked to a property development on the Queenscliff Lighthouse Reserve with paths and lighting around the Queenscliff Fort.

DTF policy is clear that a variety of options must be considered to prove to the public that the investment is needed and the preferred option is indeed the best. Contrary to this, the Business Case options analysis is wafer thin and demonstrates little understanding of the importance of options analysis when linked to NPVs. Even the preferred option receives cursory analysis and inexplicably (and erroneously) this option's cash flow includes depreciation as an actual project cost – this is only included in private sector NPV evaluations when depreciation leads to a tax benefit which impacts annual profitability. It should not be included in Government calculations.

The most pointed criticism is that no other options are presented for consideration. It is simply inappropriate to not identify alternatives (including demand management, modifying existing assets, non-asset solutions etc) that could achieve all/most of the benefits. The Council also brushes over the role of the private sector as a partner in increasing visitation and generating employment. This shortcoming could have been identified if other options were assessed.

OBSERVATION 4 - INADEQUATE RISK ANALYSIS AND MODELLING/SENSITIVITY ANALYSIS

Under DTF Guidelines (Refer: S.5 Preparing Project Budgets for Business Cases Technical Guide V102 August 2013) detailed risk analysis needs to be undertaken to determine which options, if any, are suitable prior to the level of development of the full business case. The Guidelines direct that business cases must "rigorously

assess the inherent risks, including how they are likely to affect the investment, and outline strategies for mitigating them”.

Quite simply, this work has not been done adequately. The Council’s Business Case (Refer Appendix F) only focuses on project delivery risks i.e. up to the end of construction – remarkably the risk assessment is silent on the issue of long-term operational risks to Council. For the Council to even consider this option without having a comprehensive risk analysis for long term risks is highly unusual. Why?

The property development and tourism leasing option represents a significant risk to the Borough – there have numerous business failures on Crown Land (Seal Rocks, Erskine House Lorne, Mt Buffalo etc) where the burden of revenue shortfalls ultimately falls on taxpayers or ratepayers to meet. There is a demonstrable risk that this development, which assumes only 66% occupancy throughout the year, will not be successful given the Council’s own assessment that tourism is problematic.

The Victorian Government’s policy position on regional development (Regional Economic Development and services review - Final Report July 2015) confirms this risk and states:

- *“Investment in tourism is also a high- risk venture compared to investments such as commercial or industrial property*
- *The intrastate tourism market has not grown over the past five years, and international visitation to regional Victoria is currently low*
- *Growing international visitation to regional Victoria will be challenging. Only a small proportion of visitors from growth markets such as China and India stay overnight in regional Victoria. The proportion of visitors staying overnight outside of Melbourne is 5 per cent for visitors from China, 5 per cent for Singapore, 6 per cent for Indonesia, and 7 per cent for India.”*

In view of clear operational risks from the investment in seasonal accommodation, DTF would expect a detailed risk evaluation has been undertaken (refer: DTF’s publication ‘Gateway Review Process - Gate 1: Concept and Feasibility’). Evidence would be expected of the following:

- A list of major strategic, political and/or reputation, environmental and legislative risks to the overall project, analysed by likelihood and impact.
- A risk register to identify key risks both to the procurement process and to the Council should an appropriate solution not be sourced.
- The risks of failure have been considered, e.g. take-up or usage less than expected and contingencies identified (for example, what would the Council do if revenue targets are not achieved. Could the site be sold or leased out to the private sector? If so, what would the revenue be?)

Where are the assessed risks around environmental impacts? No evidence is provided that any relevant regulatory requirements have been considered in detail. The development contradicts many aspects of the Queenscliffe Planning Scheme and the Victorian Coastal Strategy yet there is minimal analysis of the risks should other Government agencies responsible for potentially impeding legislation block the development. Interestingly the Appendix F Risk Register #7 notes it would be ‘catastrophic’ if Coastal Management Act Consent was refused by DELWP but the likelihood of this is ‘rare’. This would appear to have pre-empted the outcome of the public consultation process required under the Act.

The project is predicated on the provision of one particular accommodation product. No assessment is made of the market changes which could impact supply such as AirBNB, Stayz or other direct house-hire brooking services provided by the private sector. Direct house hire is a disruptive innovation which has opened up leasing as a viable alternative by existing property owners. As such, many new properties are already on the market which compete with both conventional holiday accommodation and the type of housing the Council intends to construct on Shortland’s Bluff. A review of Stayz shows 92 residences in the Borough offering 742 beds. AirBNB has over 40 but some overlap is realistic. Nevertheless, it would be expected that tourism

demand in the Borough will be met from a variety of sources and, of course, direct letting will be a viable proposition for many property owners to offset the high Council rates (note comparison with Greater Geelong – source <http://knowyourcouncil.vic.gov.au>).

The Council proposal is based on the Queenscliff Council directly managing the accommodation (refer S.6.2 of Urban Enterprise report), therefore should the development be financially unsuccessful the Borough would be subsequently faced with a loss making enterprise. This is generally not an operational or planning position local Council’s should take on, particularly small Category 1 councils with their limited resources and skill base needed to manage complex projects.



In the context of operational risks, no risk assessment is made of impacts on other accommodation providers. Ten such providers wrote an open letter to local papers objecting to the new development on the basis it will directly compete with their businesses. One of the accepted objectives of government is to provide a regulatory and planning framework in which the private sector delivers a service. However, in this case, the Council is diluting the accommodation market which will have its most significant impact in the low tourist season which is precisely when the Council has already noted businesses struggle. The Council’s Business Case has not provided any methodology which would support the notion that an additional 10 dwellings would in fact benefit other providers of similar accommodation (as an aside, it is notable the Shortland’s Bluff houses will be let for around \$200 per night so, regardless of intended 5 star rating, the price point puts these new places in the same price bracket as many current providers).

The Victorian Government has a very clear policy on competitive neutrality (Refer <http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Competitive-neutrality-policy>). Competitive neutrality ensures that the significant business activities of publicly owned entities compete fairly in the market. It is about transparent cost identification and pricing in a way that removes advantages arising from public ownership.

Competitive neutrality under the inter-governmental Competition Principles Agreement (CPA) does not apply to non-business, non-profit activities of government, but it does apply to local government businesses. DTF directs that Government agencies should review all of their circumstances and the markets they supply to identify any advantages peculiar to their own circumstances. The ten accommodation providers who have objected to the new development claim the Council is engaging in unfair competition as it does not need to repay the grant monies from the State & Commonwealth Governments, does not pay land tax or council rates; received the Crown land for free; can offer water views not available to the private sector; and, is underwritten by ratepayers. These concerns seem valid but the Business Case makes no reference to adjusting the rental rate based on full cost-reflective pricing to take into account the cost advantages of public or local government ownership (Refer Appendix 1 of the DTF policy).

Evidence of the lack of risk planning is shown by recent articles in the local media about the potential for the two-storey houses behind the White Lighthouse and Hume Tower and Murray Tower to be a hazardous to safe navigation. This criticism came from a previous Director of the Victorian Regional Channels Authority. The basis of the concern is that flare and glare from the houses behind the navigational aids on Shortland’s Bluff could be quite confusing in certain conditions as many mariners still rely on clear and unambiguous sight lines. Clearly this is essential to resolve in terms of risk management and the critical issue is whether it can be guaranteed 100% that the development will not create a risk. It remains to be seen whether any risk manager could really make that guarantee given the disastrous consequences to life, property and the environment of getting it wrong. Remarkably this risk was not included in the project’s risk register.

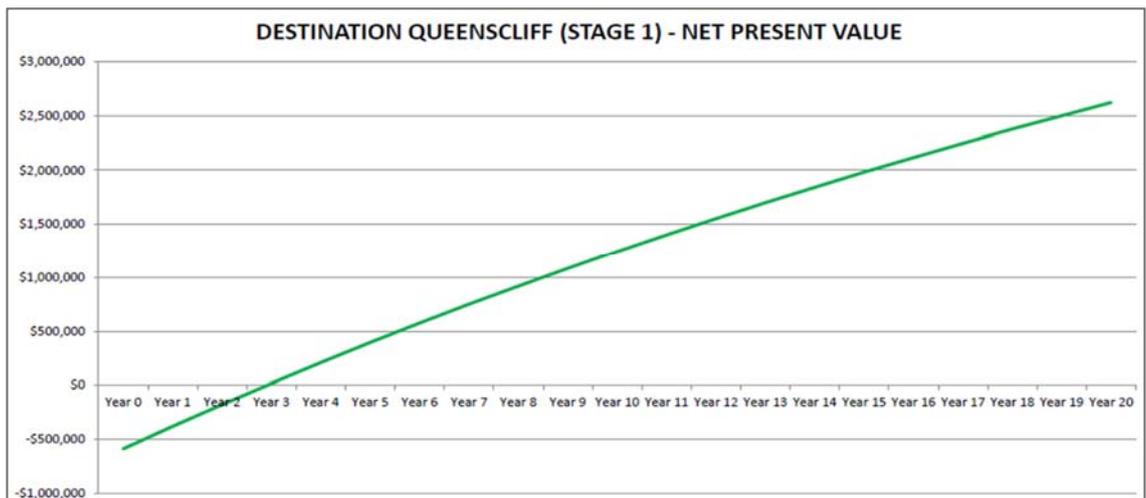
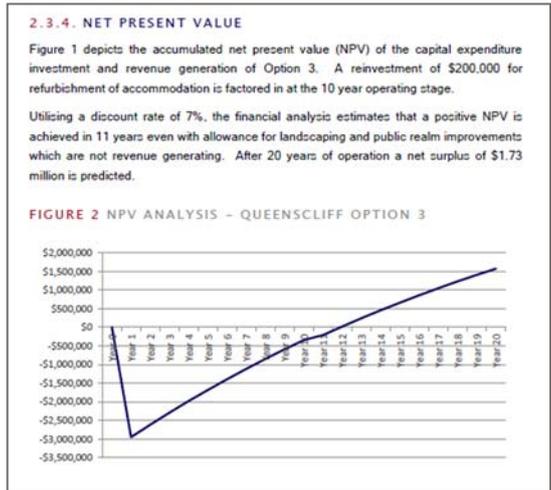
MODELLING:

The Business Case contains neither modelling and nor sensitivity analysis on the variability of costs. For such a significant project it would have been reasonable to have undertaken a financial analysis to a detailed level (i.e. a Monte Carlo analysis). This should have included a risk assessment undertaken on the impact on the

scale of the development if the capital costs are wrong by a significant factor or if revenues do not meet projections.

Clearly the robustness of the figures go to the viability of the options and the associated risks carried by the Council and, by default, ratepayers.

It is troubling that the NPV of the project, using the optimistic estimates contained in the Appendix A Master Plan, shows that the project will not generate a positive NPV until Year 11 (noting this is not achievable as cash flow is incorrect due to delayed revenue start date as will be discussed below).



However, this NPV is re-worked significantly in the Appendix H Cost Benefit Analysis to show that the project will breakeven by Year 2.5. See graph below:

So why the difference in the two NPVs? Simple, the second NPV simply reclassifies the capital investment by Government as revenue or income (refer adjoining table). This is an unusual accounting approach - generally grants should be excluded from NPV cash flows. NPVs are intended to compare projects and calculate Return On Investment (ROI) from expenditure options at a whole of Government level. To include grants as revenue clouds the project's true viability and distort the apparent ROI. In any case, the lumping together of Sport and Recreation funding with tourist housing/Fort Queenscliff funding makes a nonsense of regarding 'Destination Queenscliff' as one project. This approach is simply an artifice intended to re-badge an earlier pre-election funding commitment to leverage money from the Commonwealth for an entirely unrelated project.

DESTINATION QUEENSLIFF PROJECT (STAGE 1) - COST BENEFIT ANALYSIS			
NET PRESENT VALUE ANALYSIS			
Cashflow Description	Note	Year 0	Year 1
Cash Outflow			
Capital Expenditure			
Queenscliff Lighthouse Reserve	1	-\$2,614,514	
Fort Queenscliff Activation Project	2	-\$900,000	
Queenscliff Sports and Recreation Precinct	3	-\$3,155,000	
Professional costs	4	-\$325,000	
Operating Expenditure			
Queenscliff Lighthouse Reserve			
Accommodation (including depreciation)	5	-\$95,000	
Landscaping	6	-\$35,000	
Fort Queenscliff Activation Project			
Operating Cost (including depreciation)	7		-\$35,000
Queenscliff Sport Recreation Precinct			
Operating Cost (including depreciation)	8		-\$42,000
Other Costs			
Estimated loss of income from Caravan Park during construction	9	-\$250,000	
Cash Inflow			
State Government Grant	10	\$3,155,000	
NSRF Grant	11	\$3,500,000	
New cabins Income	12		\$350,000
Café rent income	13		\$35,000
Maintenance savings (improvements to camping infrastructure)	14		\$10,000
Additional Caravan / Camping Income	15		\$32,500
Net Cashflow		-\$589,514	\$220,500
Cumulative Net Cash Flow		-\$589,514	-\$369,014
Discount Rate	6%		
Present Value		-\$589,514	\$208,019
Cumulative Present Value		-\$589,514	-\$381,495

The NPV analysis in the business case indicates a positive position is not achieved until Year 10 – this is not correct as the financials assume revenue is achieved from Day 1. The Gantt chart in the Business Case (Refer Appendix E Section 10 and Appendix I) confirms that the project will take about 18 months from initiation to

commissioning and it is likely revenue would not commence until months after commissioning as bookings need to be achieved so realistically income would actually ramp up, not be 100% of forecast from Day 1.

Naturally the fact the break-even is not achieved until well after Year 10 should be re-assessed from a Government perspective as to whether this represents taxpayer value for money. As other options were not assessed there is no way of determining whether a superior Return on Investment could be achieved. Again, this fundamental option analysis work should have been completed to satisfy stakeholders that the best investment has been made.

An interesting sideline of the 6% discount rate adopted by the Council is that the DTF Guidelines (Economic Evaluation Technical Guide V102 August 2013) states that in relation to commercial investments with similar risks as the private sector:

*“While **there should ideally be limited government involvement in this area**, government should require a rate of return on commercial investments comparable to that which the private sector requires given the degree of risk associated with the area of activity. These projects should use a market rate of return as the default discount rate, commensurate with the risk profile associated with the industry and specific characteristics of the project. Given that there is the potential for such investments to be significantly more risky than an average market return, project proponents should liaise with DTF regarding the appropriate rate.”*

It would be expected that the market rate would be significantly greater than 6%. No documents were provided by the Council as part of the FOI discovery process which indicated any engagement with DTF as directed. The function of discount rates is explained in DTF's Guideline on NPV's "Use of Discount Rates in the Partnerships Victoria Process"

“If government applied an average discount rate across all projects, it would advantage risky projects (by demanding a return lower than their risk warranted) and disadvantage low risk projects, by demanding excessive returns from them. The result would be that government would tend to over-invest in risky projects, and under-invest in low risk projects.”

OBSERVATION 5 - INADEQUATE ANALYSIS OF ACCOMMODATION SEASONALITY AND THE TARGET MARKET

Critical assumptions in the Planisphere and Urban Enterprise reports contained in the Business Case have not been not tested. For example, despite the obvious seasonality of accommodation in Queenscliff and the periodic failure or closure of some hotels and other accommodation types, the consultants did not provide any details about how projected occupancy rates were calculated (which underpin the estimated financial returns to Council).

It is understood the initial Planisphere assumptions are based on the Great Ocean Road tourism market (an hour away) and no structured survey of accommodation providers in Queenscliff was undertaken to establish their profitability or learn from their experiences.

Of concern is that the Urban Enterprise report clearly showed that over a 10 year study period "visitation to the Borough peaks during the month of January, corresponding with school holidays, and drops dramatically during the winter months" (Page 21). Despite this narrow window of profitability, the NPV shows a positive NPV from Year 2.5 but it is not explained how would an operator of a commercial development at Shortland's Bluff could make a profit from such capital intensive project in such a short time (the occupancy rate in winter is half of summer occupancy levels).

Urban Enterprise noting that over the past decade several accommodation establishments have closed in the Borough resulting in a loss of 84 rooms, but assume without any formal demand analysis, that the very presence of "eco-cabins" (a euphemism for property development) will fulfil a latent demand that has not been met by the private sector (despite ample opportunity and a profit objective). This assumption is particular paradoxical as Urban Enterprise in 2014 cited research showing "there has been an 11% decrease

in visitors staying in hotels and motels over the past decade and a 4% in B&B. This decline has not been experienced in neighbouring destinations or surrounding regions".

Remarkably the analysis also failed to address financial issues such as fluctuating levels of demand for accommodation in the Borough and the potential suitability for accommodation of other sites in the Borough such as the Queenscliff Fort. As was noted above, there has been no analysis of how AirBNB, Stayz and other direct letting services impact the accommodation market or distort government metrics. This is another case of a disruptive process, like Uber, which can catch government agencies unawares by significantly changing historic demand and supply interaction.

Initial consultancy reports which form the basis of the Council’s bid shows the development is targeted at “higher-end, luxury market” (Urban Enterprise Page 32). However, is this a correct assessment of the market? On Page 23 Urban Enterprise writes “The high proportion of visitors earning over \$200,000 per annum suggests that there is a strong, existing market for high-end accommodation and other tourism products”. Wrong? This may just show that these people are staying at their own holiday houses which are expensive (ipso facto property owners would be wealthier). Indeed on Page 26 Urban Enterprise notes “the proportion of visitors staying in their own property is significantly higher than the Geelong and Regional Victoria average. However, the NVS commonly undercounts holiday home visitors, and it is likely that the number of holiday home owners is higher than represented in the survey”! Ipso facto it cannot be assumed this cohort would be interested in eco-cabins.

Likewise, the another potential high end target market segment - international visitors - are virtually non-existent. Urban Enterprise noted in 2014 “The low number of recorded international visitors (average of 2,790 per year over the past decade), prevents detailed analysis of international visitor markets.”

In summary, the Business Case does not clarify exactly how high-end accommodation would lead Queenscliff's tourism revival and growth. With key assumptions and conclusions unable to be substantiated, it is uncertain why this project warrants funding.

OBSERVATION 6 – CONSTRUCTION COST ESTIMATES - LACK OF DETAIL AND WRONG ASSUMPTIONS

Under DTF’s Investment Lifecycle Guidelines, the project budget should already be developed to Cost Plan B given the project is at the Business Case stage. However, a detailed budget breakdown has not been not provided, instead a high level cost summary has been made available.

DTF requires that agencies have a database that supports a good understanding of the full lifecycle costs of project assets controlled to assist in project estimating and providing a reality check on more detailed estimates especially during the options analysis and business case phases. DTF requires these estimates to be regularly updated and should cover operating time series information as well as asset investment estimates. Importantly, indicative risk-adjusted costings are expected to be developed for different phases of the project, depending on the project type – such costings were not in the Business Case.

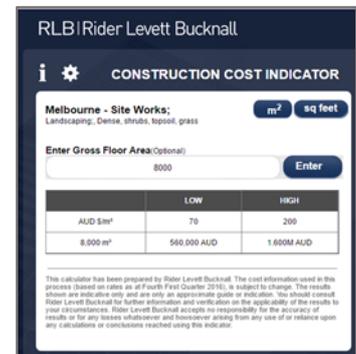
Once the budget estimates contained in the Business Case Appendix J (Economic Impact) are unpacked, it is seen the estimate for 6 deluxe tourism houses are \$1,242,000 i.e. just over \$200,000 each. This is remarkably low given the visitor experience is meant to be 5-star high end so as to not compete with existing accommodation providers. Data published by the well-known quantity surveying firm Rider Levett Bucknall (RLB) estimated the construction cost of high quality accommodation at up to \$370,000 each.

	LOW	HIGH
AUD \$/Unit	124,950	371,280
6 Unit	749,700 AUD	2,228M AUD

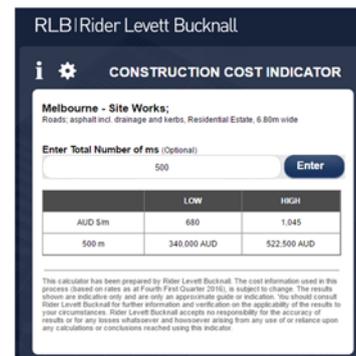
	LOW	HIGH
AUD \$/bedroom	25,805	39,270
6 bedroom	154,830 AUD	235,620 AUD

Note the RLB figures are construction costs ONLY and exclude other high cost elements (but apparently not included in budget estimates) such as:

- Loose furniture, fittings & equipment (FF&E)
- Site works, power, sewerage and water reticulation (note all in-ground services need upgrading). This has potential to be an enormous cost as the whole building site is basically un-serviced.
- Regional cost allowances for construction and delivery to site (noting the RLB cost estimates are for Melbourne, therefore cheaper)
- Landscaping costs appear very light on considering the Urban Enterprise cost estimate is based on 8,000m² (Page 45) and most of the site will be disturbed during construction and in-ground works.



Additionally, the Planisphere plan does not show car parking or road works adjoining any of the houses. The only car parking shown on the plan is for the public at Rip View. This may seem a trivial omission but consider the requirement for say two cars per house plus additional car parks required for guests, management, cleaners and maintenance staff. In fact, a very large area is required for parking by visitors, management, cleaners, maintenance and technical staff. These bays would need to be exclusive use so barriers would need to be installed and the area may even need to be fenced as 5 star visitors would expect a reasonably high level of security. A very large allotment is needed for the commercial development parking requirement. This inevitably means a further loss of open or treed space plus additional project cost.



Clearly inclusion of these costs means the estimates in the discussion paper are seriously under-done. The RLB estimates were cross-checked with BMT Quantity Surveying and the two firms unsurprisingly aligned. Assuming shell and core construction of 130m² (noting the buildings will be 2 storey) the cost of 6 houses at \$2,000m² would be \$1,560,000.

Townhouse	Low	Medium	High
	2br Single level brick veneer townhouse, including allowance for common property	\$1,575	\$1,860
2br 2 level brick veneer townhouse, including allowance for common property	\$1,630	\$1,900	\$2,290

OBSERVATION 7 – CONTRADICTION COUNCIL’S OWN POLICIES

Perhaps the major contradiction of the proposed development with Council policy is the objective of a vibrant local economy which supports local businesses and new business investment (refer 2015/16 Queenscliffe Council Annual Report p.46 and Borough of Queenscliffe Council Plan 2013-2017 p.20). The Council has tried to downplay criticism the Shortland’s Bluff tourist development would be in direct competition with existing providers by stating the target market is high-end visitors. However, closer examination of the revenue stream shows that estimated expenditure is \$150 per person per day inclusive of accommodation, food and other incidentals (refer Appendix J Urban Enterprise Page 13). On the basis each person may spend \$50 each day on non-accommodation items, this means that each property is grossing only \$220 per day. The development is meant to be a high-end facility but the nominal rates indicate the development is definitely going to compete with existing providers.

Is it reasonable that these businesses, which already struggle in winter, must now compete with a government-owned facility (noting caravan parks service an entirely different market segment to the proposed accommodation on Shortland's Bluff)? There are several major and smaller accommodation providers who have expressed concern about this clear conflict given the Council business would not have the same cost pressures as private sector providers who must pay land tax, council rates, purchase costs, interest rates well above the Treasury Bond rate which provides the benchmark Government discount rate. It is hardly a level playing field and there are rightfully questions of fairness and natural justice to be raised.

Of course, during low season even the Council acknowledges vacancy rates will only be 50 percent. Basic demand and supply behaviour will likely lead to the Council dropping its prices to achieve higher occupancy – this is precisely when existing businesses are struggling and tourism experience will confirm that for the same price people will likely opt for water views against no views. In the absence of new reasons to visit the Borough, those staying in the Council's new accommodation will be drawn from the existing visitor pool to the detriment of current businesses.

Another contradiction - the Business Case glosses over how constructing new buildings on vacant Crown Land clearly contradicts existing Council values of "Living sustainably and protecting our diverse natural environment." (refer Borough of Queenscliffe Council Plan 2013-2017). In terms of 'walking the talk', the tourism property development goes against Council's publications articulating:

- Key principles - *"The need to protect and enhance the Borough's natural environment continues to be a high priority for Council"* (P.13)
- Key values - *"The Borough of Queenscliffe Council and community are very passionate about the unique coastal environment that surrounds us. Protecting and enhancing our environment is one of the key focus areas of Council. Residents, businesses and visitors encouraged to support Council's efforts."* (refer <http://www.queenscliffe.vic.gov.au/environment-and-sustainability>).

With regard to the 'Key Findings' and 'Implications For The Concept Plan' sections, there was an excessive focus on development and exclusion of findings which did not support either little or no development, for example:

- the majority of respondents to the 2014 survey did not want any development and wanted either the area returned to bushland or nothing done at all
- it was widely acknowledged by individual Councillors that development of the lighthouse sites had potential to become quite divisive.

Perhaps one of the most telling pointers of Council's direction was in the original Planisphere report dealing with "Design Principles" for any development. Under the section dealing with 'Unique Natural Environment', Planisphere simplistically proposed the appropriate design outcomes from any development would ensure there was; weed control; development didn't exceed two storeys; and, buildings must sit sensitively within the landscape – hardly the best design response to Queenscliff's 'unique natural environment'.

The proposed construction of new buildings is at odds with the Council's direction promoted under the Queenscliff Heritage Advisory Service and Restoration Fund. The Council's website notes a considerable amount of restoration work has been carried out over years, supported and encouraged by the Heritage Advisory Service, which has "greatly influenced the appearance of the Borough today". The basis of the work of the Heritage Advisory Service is the 1984 Urban Conservation Study (UCS) prepared for the Ministry for Planning, Geelong Regional Commission, Borough of Queenscliffe and Australian Heritage Commission by Allom, Lovell & Associates. The Queenscliffe Planning Scheme incorporates many of the recommendations of the UCS. It is particularly telling that the UCS states:

- *"...around the lighthouse in particular no further development or building should take place and, emphasis should be placed on removing existing buildings where possible".*

- *"To the south of the Fort around the leading light there has been some unsympathetic development of the land with new brick veneer dwellings encroaching onto some of the last remaining natural shrub on Shortland's Bluff, and there is threat of further development within this area".*

This view is echoed by the Queenscliffe Heritage Committee which noted:

- *"Erecting cabins in parks and reserves would require permanent alienation of the land. The Committee notes that funds for the required capital expenditure to erect and equip cabins may only be obtained by allowing commercial development. It fears that this could eventually lead to the area covered by cabins being seen as another residential area and the final elimination of parkland through private ownership of sites."*
- *"Crown land should not be lost to future generations to solve immediate funding problems".*
- *"That cabins [should] not be introduced into Public Parks and Coastal Reserves".*

OBSERVATION 8 – REJECTION OF COMMUNITY OPINION, POTENTIAL CONFLICTS OF INTEREST AND BIAS

The Council's application for funding of the Destination Queenscliff project trumpets the consultation it went through as part of the process, citing both community and organizational input into the Council's decision making. The Business Case is written as if the community was fully supportive of the proposal *"Council has completed extensive community engagement and consultation on all project elements and have endorsed this application at a formal meeting of Council."* (Business Case P.2)

Community support? The reality is to the contrary. In 2014 a Council survey generated 320 responses in which respondents ranked three options of what should be done with the Queenscliff Lighthouse Reserve:

1. Do nothing
2. Landscape improvements
3. Tourism property development.

The figures tell an unambiguous story when analysed on the basis of those who didn't want commercial development (Options 1 & 2) or those who did (Option 3):

- 68% opted for no development (Options 1 & 2) as their 1st preference.
- 79% opted for no development (Options 1 & 2) as their 2nd preference.
- 29% opted for development (Option 3) as their 1st preference.
- 12% opted for development (Option 3) as their 2nd preference.

Simple statistical analysis shows a very strong numerical correlation between Options 1 & 2 and on that basis the results are unequivocal that respondents did not want development. Despite this, in its October 2014 Council minutes (p.16) the Queenscliffe Council made the astonishing statement that "whilst the community consultation outcomes indicate that Option 2 (Landscape Improvements) is most favoured, the response is not overwhelming or emphatic." This inexplicable decision was made with almost 80% of community responders selecting landscaping or no development as a first or second preference!

To justify this remarkable clearly skewed decision, the Council minutes stated that its own appointed reference group of 5 people had voted 4:1 in favour of the commercialization option. It is now understood that the reference group was actually seeking further and better particulars about commercial development options which could then inform its decision making. This request was subsequently appropriated by the Council as de facto support for this option.

The Council's claim of strong business support is demonstrated in the Stronger Regions Funding Application (Refer Appendix M LOS) which contains letters of support from representatives several business individuals in the district amongst whom are:

- Owner Operator of the Queenscliff Big 4 Caravan Park
- CEO of Searoad Ferries

It is not unreasonable to postulate these people could have a perceived conflict of interest as they are on the Queenscliffe Council's Tourism and Economic Development Advisory Committee (TEDAC) and yet their businesses (and indeed others on TEDAC) may financially benefit from greater tourism in the Borough (the proposed objective of the project implementation). It would have been prudent to omit these letters of support in view of the authors connections to Council.

To gauge the reality of general business support in the local community, it is illuminating that open letters were sent to the *Queenscliff Herald* newspaper and The Rip magazine from 10 accommodation providers in Queenscliff and Point Lonsdale objecting to the Council's plans for various of reasons:

- no detailed business case provided
- no evidence of an inadequate supply of quality accommodation and dining/cafe facilities in the Borough
- no evidence that previous top-price accommodation actually resulted in additional tourism visitation or overnight stays that benefited other businesses in town
- no evidence that visitors staying in this new development would not simply be people who would otherwise have stayed with an existing accommodation provider
- the community voted against it in 2014
- the Council's development will unfairly compete with existing businesses given lower cost base and operating expenses
- Council should be investing in making Queenscliff and Point Lonsdale a year-round destination clearly differentiated from other coastal towns
- no community-backed tourism strategy and associated business plan.

Instead of assuaging these concerns or addressing the substance of the letter, the Queenscliffe Council has attempted to downplay the seriousness of the letter with one Councillor joking about "fake news" and the CEO refusing to respond to the open letter as it was not directed to the Council (refer Council Minutes of 23 February 2017 P. 127 & 128). On this basis the Council appears constrained to being reactive rather than proactive.

The Council's submission for funding is also silent on the strong criticism levelled by the Australian Army History Unit (AAHU) at the Council's Fort Queenscliff Master plan prepared by TRC Tourism P/L (May 2015). In June 2015, the AAHU comprehensively critiqued the findings and assumptions made by the consultants citing errors of fact and the potential dire impact on the Fort's high heritage value structure and fabric should the consultants' recommendations be progressed. As was reported on in local media, while it was quite appropriate for the Council to examine options to reinvigorate the Borough, before issuing a major consultancy report it would have been prudent to obtain the input of local specialists. Also very concerning was (and is) that the Fort remains an operational military facility and there was simply no buy-in by the Department of Defence to any of the Council's strategic plans.

The critical issue here is that Council documents supplied to other Government agencies cleverly imply that there was a full consultation process resulting in general community and business agreement with the funding proposal. In Section 31 of the NSRF Application for Borough of Queenscliffe it states:

"To date, planning associated with the three elements of the Destination Queenscliff project has generated significant partnerships and goodwill between Council, local businesses, the local community..."

This claim of community and business support is demonstrably untrue but was no doubt instrumental in the successful application for funding. It is interesting to ponder what the Government funding agencies will think about the appropriateness of the grants given the true fact of negative community and business support. The Council's obfuscation of the facts is sharp practice which, when recognized by State funding agencies, could well impact future grant applications.

OBSERVATION 9 – ENVIRONMENTAL AND PLANNING CONSTRAINTS PUSHED ASIDE

ENVIRONMENT:

In the context of environmental impact assessment, the Council's funding submission ignored the comprehensive review of coastal development commissioned by the Victorian National Parks Association (VNPA) issued in 2014 called "The Coast is Unclear – the uncertain future for nature along the Victorian coast". In brief, the VNPA study identified that:

- Victoria is entering a new phase of coastal development, including residential and tourism, that will further damage the conservation and social values of the coast. The current resourcing of coastal planning, protection and management is inadequate to deal with these and other existing and emerging threats.
- Coastal nature on coastal crown land is largely found in narrow strips squeezed between the sea and developed land. Coastal development and rising sea levels are increasing the squeeze. Their narrowness accentuates the edge effects of adjoining land uses and land use change which leads to habitat loss, invasion of weeds and pest animals and indiscriminate access.
- The two main drivers of change in the condition and extent of coastal nature, now and in the future are climate change and the destruction, degradation and fragmentation of coastal nature caused by the land development and urbanization stemming from population growth.
- There is inconsistent application by local governments of planning scheme tools that could be better used to protect and expand coastal nature.
- To enhance the protection, maintenance and restoration of coastal nature will require collaborative, well-planned, targeted and adequately resourced action involving governments, private land owners, public land managers and the community, but this is being undermined by recent planning and development decisions.

The VNPA observes that:

"the dash to develop will pay smash head-on with the coastal planning and management framework that has been reformed over the past two decades...(which)...recognized the need to protect coastal nature and coastscapes and to better engage with local communities in looking after their local coasts."

"Coastal public land is being viewed as cheap and available while satisfying the three basic criteria for commercial development – position, position, position."

"Victorians do indeed love their coast... but that love can be lethal. Each poor planning and management decision adds to the pressure from the previous ones – death by a thousand cuts."

Pages 84 and 85 of the 'The Coast is Unclear' deal specifically with the Borough of Queenscliffe situation and excellent points are made:

- *"Point Lonsdale and Queenscliffe Lighthouse Reserves are under threat of development that could be inappropriate to the natural and built heritage." (P.84)*
- *"The attitude of the mayor is consistent with the view that coastal land is a cost that must be met by development. It is the same view that has led to the development of many foreshore reserves" and that "always forgotten in such a view is that if it were not for coastal public land there would be very little coastal tourism" (P.85)*
- *"The two lighthouse reserves provide the Borough of Queenscliffe, Victoria's smallest municipality, with a remarkable opportunity to view coastal nature as an asset that needs to be maintained and expanded." (P.85)*
- *"The Queenscliffe Council "should abandon excessive development proposals for the lighthouse reserves and create management plans that focus on expanding coastal nature and public open space." (P.85)*

In the context of the VNPA assessment of coastal environmental pressure, the Planisphere report comprehensively failed to analyse comprehensively the environmental impact from the development option. Indeed, S.5.3.7 of the Victorian Government Department of Economic Development, Jobs, Transport & Resources' paper "Regional Economic Development and services review - Final Report July 2015" states:

There is abundant evidence and sound policy to support the case that large-scale tourism developments are better located outside national parks. Not only is this more likely to better support regional economies but it also reduces the risk of adverse impacts on the natural amenity that attracts visitors to parks.

By intending to undertake a property development on Crown Land at Shortland's Bluff, the Queenscliffe Council seems focussed on chipping away at increasingly scarce undeveloped foreshore Crown land which is surely one of the Borough's key attractions. The proposal contradicts the Victorian Government's strategy position about the enjoyment of open space. The applicable Coastal Management Fact Sheet notes how public open space on foreshores adjoining coastal towns provides community and visitors with a range of environmental, social and economic benefits. Somewhat ironically, the Victorian Coastal Council's notes uncrowded and undeveloped coastal landscapes are highly valued by the Victorian community:

"Foreshores at locations including Portarlington, Queenscliff, Torquay, Anglesea and Apollo Bay are fortunate to still have large areas of open space, that connects us to nature and each other whilst providing access to the coast." (Refer DEPI – Enjoyment of open space)

It seems the non-financial value of such open space is not recognized by the Queenscliff Council.

The proposed development also contradicts numerous elements of the Victorian Coastal Strategy (VCS) which many people thought would be sufficient to protect this important parcel of land. The VCS states new development, reuse and redevelopment on the coast must have, *inter alia*, a demonstrated need to be on the coast and protect culturally significant places. The proposed property development fails both of these hurdles. There are numerous accommodation alternatives available and impact of the development on existing business has been ignored.

PLANNING:

It is relevant that Council has just completed a C27 amendment review of the Queenscliffe Planning Scheme. Very few changes to the Scheme were made and it is notable that one particular section remained unchanged, namely Schedule 2 to the Significant Landscape Overlay (SLO) pertaining to the Queenscliff Lighthouse and Ocean View car park. Considering the constraints specified in this section of the planning scheme, it is remarkable the Council could contemplate a commercial development which will be "in the lighthouse reserve and overlooking the spectacular and treacherous entrance to Port Phillip" (Business Case P.7).

Section 2.0 of the SLO provides well-defined limitations on development within the Queenscliff Lighthouse / Ocean View car park area which should have euthanized the property development proposal immediately. This section clearly specifies two landscape character objectives to be achieved :

- maintain and promote the significant views of Port Phillip Heads, Point Nepean, Point Lonsdale Lighthouse, the shipping lanes, Lonsdale Bight and the coastline "*from land and sea*".
- protect important natural and built features of the landscape including the Shortland's Bluff, the cliffs, the Queenscliff Lighthouse, the Queenscliff Fort, and the historic gun emplacements.

The context of these constraints are:

- To protect landscape features and scenic vantage points from visual intrusion resulting from the inappropriate siting and design of new development.
- To ensure the public has suitable access to appropriate areas.
- To ensure the siting, design & landscaping of buildings and works are responsive to landscape values.
- To maintain remnant coastal vegetation as an important and valuable element of this significant landscape.

- To install appropriate interpretive elements which highlight the site's historical and environmental significance.
- To promote the coordinated development of the overlay area.

Apropos of these constraints and objectives, Section 3.0 of the SLO requires that *“buildings and works shall not be sited or carried out which interfere with significant landscapes and view lines”*. It is concerning the Council is contemplating a major property development that blatantly ignores the Planning Scheme. If the Council does not act in accordance with the intention of its own Planning Scheme then it sets a dangerous precedent for other developers to challenge any restriction under S.2 of the SLO.