Queensland Boundaries Commissioner Report

Proposed Douglas De-amalgamation
Published by the Queensland Boundaries Commission

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Queensland Boundaries Commissioner  
~ background and overview of report

The Queensland Boundaries Commissioner Col Meng (the Commissioner) was appointed to his role on 29 June 2012 by The Honourable David Crisafulli MP, Minister for Local Government.

The Commissioner was appointed to investigate the viability of former shires wishing to de-amalgamate from larger regional councils. The Minister received 19 proposals, five of which were referred to the Commissioner.

The Commissioner reviewed local government de-amalgamation proposals referred to him in an open and logical way and undertook targeted public consultation.

This report gives the Minister information including:
- a summary of the proposal from the proponent group and information provided by the council
- a summary of the detailed financial analysis provided by Queensland Treasury Corporation (QTC) (contracted as an independent third party specialist to holistically analyse the viability and sustainability elements of the submission)
- a summary of the consultation process
- an outline of the possible impacts of de-amalgamation on economic development
- an outline of the possible impacts of de-amalgamation on regional planning issues
- information demonstrating communities of interest in the region
- maps showing the boundaries of the current council and the former shire.

The Commissioner has reviewed, evaluated and analysed all information and has made recommendations accordingly.

The Commissioner has no past or current associations with the Cairns Regional Council (CRC) or the proposed Douglas Shire Council (DSC) that might create a conflict of interest.
Key points and recommendations

The Commissioner would like to extend his thanks to the Friends of Douglas Shire (FODS) and all stakeholders for their participation in this process. The level of engagement has been high.

The Commissioner would also like to extend his thanks to CRC for their efforts. The Commissioner would like to acknowledge that participating in this process has required significant resources and the high level of cooperation given to both the Queensland Boundaries Commission (QBC) and QTC is appreciated.

Key points

- According to projections by QTC, ratepayers of the proposed DSC will have to contribute a minimum increase of $701 in the first year, and a minimum of $462 over the following four years adjusted for inflation.
- According to projections by QTC, the proposed DSC will be rated as Very Weak (negative) and the remaining CRC will be Sound (neutral).
- De-amalgamation is likely to affect a number of proposed projects (including capital projects and events) in the proposed DSC.
- De-amalgamation will result in a number of diseconomies of scale.
- There are considerations other than financial sustainability at play such as social and cultural issues (including but not limited to perceived loss of identity). This was evident in the high level of engagement by both the council and proponent group.

There are limited opportunities for many shared services arrangements between Division 10, primarily due to the geography of the area.

Recommendation

In the Commissioner’s view, the social and cultural issues raised by FODS do not outweigh the significant financial impost a de-amalgamation of DSC would have on the local community.

The proposed DSC has been evaluated as unsustainable. A de-amalgamation would result in an unwarranted financial burden on ratepayers. In this case, a poll is not recommended.

Moving forward

An undivided council would foster regional over divisional decision making and would better suit the Cairns situation. The Commissioner recommends that CRC move to an undivided basis at the 2016 quadrennial elections.
However this is a long-term solution. In the short term, CRC needs to proactively address the issues raised by the proponent group in the following way:

- That CRC establish a standing committee titled CRC Division 10 Service and Consultation Committee. This committee should provide written three-monthly reports to the council on key milestones for delivery of its terms of reference until the 2016 quadrennial elections. The terms of reference should at a minimum specifically deal with:
  - tourism – support with both brand and tourism specific infrastructure, for example the Daintree entrance
  - land-use planning – appropriate to the local area and balanced, for example, fixed urban footprint of the former Douglas planning scheme versus sustainable and appropriate housing development
  - water and wastewater quality – maintenance and costs
  - rates and charges – reasons for equalisation and other increases.

The reports should be published on CRC’s website for all residents to consider.

The Commissioner recommends that councils (existing councils, remaining councils as well as any successful de-amalgamating councils) work closely with QTC to address key issues and risks identified by QTC in its reports regarding de-amalgamation. In addition to this, the Commissioner recommends that councils embrace the opportunity to participate in a QTC credit and financial sustainability review at least every two to three years. To facilitate the credit and sustainability review process by QTC, the Commissioner recommends that all councils maintain an up-to-date version of the QTC 10-year local government financial forecasting model at all times.
Douglas ~ Cairns Regional Council
de-amalgamation background

- In July 2007, the Local Government Reform Commission concluded its report on the examination of local government area boundaries, classes, names and electoral arrangements. In March 2008, the structural changes to Queensland local governments took place.

- CRC was established on 15 March 2008 from the amalgamation of DSC and Cairns City Council (CCC).

- The former DSC expressed strong opposition to the amalgamation.

- CCC was not rated in the Financial Sustainability Review by QTC. Based on historical data (as forecast data was not available) it was QTC’s view that CCC was rated as either Moderate or Strong at the time of amalgamation.

- DSC was also not rated in the Financial Sustainability Review by QTC. Based on historical data (as forecast data was not available) it was QTC’s view that DSC was rated as Moderate at the time of amalgamation.

- On 29 August 2012, the Minister referred a submission from FODS to the Queensland Boundaries Commissioner (QBC) for review.
Summary of information provided

Friends of Douglas Shire proposal

The proposal outlines reasons for de-amalgamating including:
- DSC was a conservation and tourism icon in its own right
- since amalgamation in 2008, the residents of the former DSC have seen substantial increases in rates and other service costs
- local representation has been lost with one councillor representing an area previously represented by seven councillors
- the Port Douglas, Mossman and Daintree water supplies have changed from being chemical free water to chlorinated and low pressure water supply systems
- the award winning Douglas Shire Planning Scheme is under a threat
- DSC was financially very strong with low dependence on grants and little debt
- DSC’s infrastructure was sufficient for community needs
- rates were comparable or less than neighbouring local governments and the provision of services was better
- the community of the former DSC has taken the view that the amalgamation was more of a ‘takeover’ by Cairns than it was a partnering of two communities with similar values and ideals
- financial analysis and modelling demonstrate that the proposed new DSC can meet ongoing costs with no negative impact on the current rates
- the two communities have different aspirations
- CRC fail to consult with the Douglas community.

In summary the proposal maintains that service delivery, environmental planning, corporate management and representational issues are drivers for de-amalgamation.

Cairns Regional Council

CRC adopted and maintained a neutral stance regarding possible de-amalgamation and has undertaken to respect and support any decision made by the Minister or the residents of the former Douglas Shire in respect of the current de-amalgamation proposal.

CRC provided QTC with five-year financial forecasts and potential de-amalgamation costs estimates.

CRC did not identify specific regional issues but pointed out the ability to absorb economic impacts that may arise due to various reasons e.g. natural disasters is increased by a larger population.

Further information from CRC can be viewed on the website [www.cairns.qld.gov.au](http://www.cairns.qld.gov.au).
Consultation with stakeholders

The Queensland Boundaries Commissioner consulted with:

- FODS
- CRC
- Tourism Queensland
- Tourism Tropical North Queensland.

All organisations expressed views on possible de-amalgamation and the potential impact on specific areas of interest.
Financial viability and sustainability

QTC financial analysis

QTC has had a long-standing relationship with local governments in Queensland. Of particular note was QTC’s major review of the financial sustainability of 109 of Queensland’s local governments in July 2007. QTC has also undertaken and continues to undertake regular credit reviews of local governments.

QTC was engaged to assist in conducting a comprehensive, objective analysis of both the proposed DSC and remaining CRC. The full report De-amalgamation Analysis of Cairns Regional Council is attached (Appendix 1).

During this process, QTC participated in the consultation process with representatives of FODS to clarify details of the financial model provided. QTC also engaged with CRC to understand allocation of revenue, costs, assets and liabilities between DSC and CRC. The QBC gave broad guidance on what may constitute de-amalgamation costs, however each proposal was considered on a case-by-case basis.

It was assumed from the outset there would be disparity in the figures provided by the de-amalgamation proponents and CRC. QTC made adjustments to the assumptions proposed where they were not considered to be complete and/or reasonable.

For the purpose of this review, a five-year timeframe was used to create financial forecasts, and also included consideration of the impact of de-amalgamation from service, community, financial and economic perspectives.

A sustainability rating was provided by QTC on the Base Case scenario. The Base Case scenario indicates how a council is expected to perform against key performance indicators in the coming years taking into account revenue, service delivery levels and the operational environment.

The sustainability rating also takes into account de-amalgamation costs (both one-off and fixed asset costs) and incremental annual recurring costs. Incremental annual recurring costs are not strictly de-amalgamation costs, but are expected to be incurred to operate a new DSC.

A new DSC is expected to have significant operating deficits for the five-year forecast period (Appendix 1, table 14 – page 22). Long-term operating deficits are unsustainable. A break-even budget scenario is provided to ensure completeness of information (Appendix 1, table 3 – page 6).

Rating figures provided by QTC do not take into account the differential rating systems used by Queensland councils. This was deliberate and ensures the effective comparison between the proposed DSC and the proposed remaining CRC.
Queensland Treasury Corporation summary

Cairns Regional Council (CRC or Existing Council) was formed in March 2008 following the amalgamation of Cairns City Council and Douglas Shire Council. It covers an area of approximately 4,129 km² and has a population of approximately 162,700. Cairns is heavily dependent on tourism which is linked to the Great Barrier Reef and the Wet Tropics World Heritage Area that includes the Kuranda and Daintree rainforests. Cairns also has a seaport primarily used by tour operations servicing the Great Barrier Reef and to host cruise ships. The port is also used to import fuel supplies and export raw sugar and other cargo. The area is the regional centre for far north Queensland where all major educational, health, commercial, government, retail and financial services can be accessed.

A proposal has been lodged by the Friends of Douglas Shire for the de-amalgamation of the former Douglas Shire Council from the Existing Council. If successful, a new Douglas Shire Council would be formed according to the former boundaries, which includes an area of 2,435 km² and a population of approximately 11,200.

QTC has been engaged by the Department of Local Government to provide advice and assistance to the Queensland Boundaries Commission (the Commission) about the financial aspects of the de-amalgamation proposal. QTC’s review includes financial analysis of both the proposed de-amalgamation council (the Proponent Council) and what would become the remaining Cairns City Council (the Remaining Council) to:

- determine the costs of de-amalgamation for both the Proponent Council and the Remaining Council, and
- assess the financial viability of the Proponent Council and the Remaining Council on the basis that de-amalgamation was successful, and compare this to the financial viability of the Existing Council.

1.1 Financial impact of de-amalgamation

1.1.1 De-amalgamation costs

De-amalgamation costs include all costs incurred from the date of a successful poll for de-amalgamation of the Proponent from an Existing Council to the date of de-amalgamation (i.e., election of Proponent councillors, which is likely to be approximately 12 months after the poll). QTC has identified the costs of de-amalgamation to include:

- **One-off costs.** These relate to implementation and due diligence, community and staff engagement, and information and communication and technology (ICT). They will have the greatest direct impact on the cost to ratepayers because they will be expensed in full during the first year of de-amalgamation, and
- **Fixed asset costs.** These relate to the cost of purchasing new ICT equipment and any other new plant and equipment required for the Proponent Council to maintain
service delivery standards. These assets will be expensed over the term of their useful life, therefore impacting ratepayers more subtly over time than one-off costs.

Successful Proponent Councils will be required to pay their own de-amalgamation costs as well as the de-amalgamation costs of the Remaining Council.

1.1.2 Incremental annual recurring costs

Incremental annual recurring costs incurred by either the Proponent Council or the Remaining Council are not considered a cost of de-amalgamation. QTC has identified these for the Proponent Council in order to highlight the ongoing extra costs associated with operating as a separate council.

Successful Proponent Councils will be required to pay their own incremental annual recurring costs but will not be responsible for paying costs of this nature for the Remaining Council. Incremental annual recurring costs incurred by the Remaining Council should be small in comparison to those of the Proponent Council, but may include costs associated with lower purchasing power and other operating inefficiencies. These costs, where applicable, have been considered by QTC in the forecasts determined for the Remaining Council. To the extent that they exist, these costs may impact QTC’s sustainability rating for the Remaining Council when compared to the Existing Council and the average rates per rateable property of the Remaining Council when compared to the Existing Council.

1.1.3 Summary of Proponent Council costs

Table 1 shows the estimated cost of de-amalgamation, including incremental annual recurring costs, to the Proponent Council (column 1). It also shows how these costs translate into a cost per rateable property (columns 2 and 3).

<p>| TABLE 1 – SUMMARY OF DE-AMALGAMATION COSTS |</p>
<table>
<thead>
<tr>
<th>QTC Estimate $</th>
<th>Average Costs $</th>
<th>Annualised Costs $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total one-off costs</td>
<td>2,336,000</td>
<td></td>
</tr>
<tr>
<td>Average one-off costs per Proponent Council rateable property</td>
<td>255.64</td>
<td></td>
</tr>
<tr>
<td>Total one-off fixed asset costs</td>
<td>2,119,000</td>
<td></td>
</tr>
<tr>
<td>Average fixed asset costs per Proponent Council rateable property</td>
<td>231.89</td>
<td></td>
</tr>
<tr>
<td>Annualised fixed asset costs per Proponent Council rateable property</td>
<td>41.80</td>
<td></td>
</tr>
<tr>
<td>Total incremental annual recurring costs</td>
<td>3,691,000</td>
<td></td>
</tr>
<tr>
<td>Total incremental annual recurring costs per Proponent Council rateable property</td>
<td>403.92</td>
<td></td>
</tr>
</tbody>
</table>

Note: Annualised fixed asset costs demonstrate the financial effect of spreading the cost of the asset over their useful life (i.e. depreciation expense)

Table 1 indicates that the one-off costs of de-amalgamation per rateable property will be $256 while the incremental annual recurring costs will be $446.
The following graph shows the financial impact of de-amalgamation, including incremental recurring costs, per rateable property over five years.

In the first year, each rateable property in the Proponent Council area will on average\(^1\) need to contribute an extra $701 in rates to cover the costs of de-amalgamation. In the second year, the extra contribution will drop to $462 and is then expected to increase each year based on inflation.

### 1.2 Assessment of financial viability – using QTC’s Base Case

The financial viability of the Existing Council, Proponent Council and Remaining Council was assessed by QTC with reference to financial information provided by the Proponent, and the Existing Council’s current five year forecasts as well as five year forecasts for their respective Proponent Council and Remaining Council.

In order to derive its own Base Case set of 5 year financial forecasts for the Proponent and Remaining Councils, QTC made adjustments to the assumptions of the Proponent Council and Existing Council where they were not considered to be complete and/or reasonable.

QTC’s Base Case financial forecasts for the Proponent Council and Remaining Council included a cost allocation that might occur because of decreased purchasing power with suppliers including insurance, waste management, fleet leasing and other expenses, as well as other inefficiencies.

QTC’s financial forecasts for the Proponent Council also included the items identified in its assessment of de-amalgamation costs. That is:

- the one-off costs of de-amalgamation for itself and the Existing Council

\(^1\) Rates per rateable property may bear no direct comparison to actual rates paid by some ratepayers because it is an average figure calculated using total rateable properties. It does not take into consideration that some residential, commercial and industrial rateable properties attract a higher portion of the base rate than others.
• the additional fixed asset costs, and
• the incremental annual recurring costs of de-amalgamation where they were not already considered to be included.

QTC’s financial forecasts were based on a standard delivery model. However, where existing assets were shared across a region (i.e., landfills), QTC assumed that a commercial arrangement would be negotiated between the councils to continue to share the asset. This was thought to be a more practical assumption than including the cost of replacing the asset.

1.2.1 Summary of Proponent Council costs

QTC’s assessment of financial viability involved determining a sustainability rating for the Existing Council, Proponent Council and Remaining Council. This rating considers each council’s five year forecasts against sustainability ratios and benchmarks referred to by both QTC and the Department of Local Government (DLG).

A summary of the sustainability rating assigned by QTC to the Existing, Proponent and Remaining Council is shown below. It should be noted that these sustainability ratings have been determined based on information and assumptions contained in the Base Case forecasts estimated by QTC.

<table>
<thead>
<tr>
<th>Sustainability Rating</th>
<th>Existing Council</th>
<th>Proponent Council</th>
<th>Remaining Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>QTC rating (and outlook) – Base Case</td>
<td>Sound (neutral)</td>
<td>Very Weak (negative)</td>
<td>Sound (neutral)</td>
</tr>
</tbody>
</table>

Based on the Base Case forecasts, QTC has rated the Existing Council and the Remaining Council as Sound and the Proponent Council as Very Weak.

The Existing Council and Remaining Council ratings are supported by forecasts that indicate that they will satisfy most of QTC’s sustainability benchmarks over the forecast period. Both Councils will, however, experience small operating deficits in some or all of the five forecast years.

QTC has rated the Proponent Council as Very Weak. The Very Weak rating is supported by the following:
• forecast very high and sustained operating deficits, and
• the significant liquidity support (overdraft) required to fund operations in all of the five forecast years.
1.3 Financial effect per rateable property

QTC undertook an assessment of the impact to ratepayers of de-amalgamation by comparing the average net rates and utilities per rateable property that would apply under the Base Case for the Proponent and Remaining Councils.

1.3.1 Base Case average annual rates per rateable property

Table 2 shows the average net rates and utilities per rateable property that would apply using QTC’s Base Case for the Proponent and Remaining Councils.

<table>
<thead>
<tr>
<th></th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proponent Council ($)</td>
<td>2,922</td>
<td>3,028</td>
<td>3,137</td>
<td>3,256</td>
<td>3,373</td>
</tr>
<tr>
<td>Remaining Council ($)</td>
<td>3,142</td>
<td>3,255</td>
<td>3,372</td>
<td>3,501</td>
<td>3,627</td>
</tr>
</tbody>
</table>
Regional planning

Shared services

The Commissioner requested that proponent proposals include a standard delivery model showing services, systems and governance could be conducted by the new council. There is a risk that outsourcing would come at a cost to ratepayers. Previous de-amalgamations of councils in other states have resulted in stronger councils adding a surcharge to services purchased. The surcharge could cover administrative costs, risks and overheads. Due to the nature of de-amalgamation, cooperation and collaboration between the two councils could be adversely affected.

Waste collection and disposal

Prior to the 2008 amalgamation DSC, Mareeba Shire Council and Cairns City Council (now Tablelands Regional Council and Cairns Regional Council) entered into an agreement with SITA to dispose of its waste with a regional approach. Both FODS and CRC have indicated support to continue with this approach.

Waste collection is currently undertaken by contractors in the different areas of CRC. Separation would not cause special challenges.

Water and sewerage

The sewerage system contained in the former DSC area is independent of CRC. No significant regional economies of scale are experienced in relation to sewerage treatment.

The provision of drinking water contained in the former DSC area is independent of Cairns. No significant regional economies of scale are experienced in relation to water treatment plans, however differences of opinion arise regarding the prioritisation of expenditure throughout the region. FODS maintains that the water supply to Douglas has deteriorated due to the alternative funding priorities of CRC.

Disaster management

Disaster management is a core responsibility of local government. Local government is well placed to provide first-hand knowledge and understanding when it comes to coordinating responses to a disaster.

CRC currently has a Local Disaster Management Plan (the plan). The plan can be viewed on the CRC website www.cairns.qld.gov.au.

As recent natural disasters across the state have demonstrated, effective disaster management is vitally important to the community. De-amalgamation may not only cause duplication of services, but may also affect the ability to respond to and mitigate disasters.
Journey to work profile ~ Cairns Region

This map shows the areas of interest for the following journey to work analysis according to the Australian Bureau of Statistics (ABS) 2011 Census data using Statistical Local Areas (SLAs). Journey to work data is an indicator of communities of interest. The boundaries used by the 2011 Census did not align exactly with the pre-amalgamation local government boundaries. In order to address this issue, a model incorporating additional data from the Australia Post Postal Address File was applied.

The Douglas area shows very high self containment with 92 per cent of workers staying within the area for employment.
Sankey chart ~ Journey to work data

This chart shows journey to work volumes between different origins (left) and destinations (right). The thicker the line, the greater the volume of journeys between origin and destination.
Economic development

Economic development is a concept that generally refers to the actions of government and communities to promote a higher standard of living. Such actions may involve the development of infrastructure and regional competitiveness.

While industries such as education, health, horticulture, agriculture and financial services are present in the Cairns and to a lesser degree Douglas, the primary industry in the Douglas area is tourism. A sudden negative shock in the tourism industry has significant knock on effects to the community which in turn affects the community’s capacity to pay taxes such as local government rates.

Growth

Population growth is an important factor and contributes to economic growth. An increasing population in a local government area usually means an increase in the rateable property base. This is the primary source of local government revenue. Without economic growth communities can quickly stagnate. Local government areas with very low, zero or negative growth generally require significant levels of subsidisation from state and federal governments.

Projected population growth rates in the new DSC is expected to be about 1.3 per cent and in the remaining CRC is expected to be about 1.7 per cent. The population of a new DSC is estimated at 11,245, with 9,138 rateable properties. An increase of 1.3 per cent means only 118 new rateable properties in that particular year. Considering average Australian inflation for 2011 was 3.4 per cent, it is likely the former DSC would lack the capacity to service the rates and utility charges required to provide a minimum level of service and capital expenditure now and importantly into the future.

Costs for a new DSC to do business are likely to increase if growth is limited. This is reflected in the sustainability ratings assigned by QTC for a new DSC of Very Weak (negative) and a new CRC of Sound (neutral). A local government with a larger population and more rateable properties has a greater capacity to provide services, better absorb unforeseen shocks and be better placed to contribute to the economic development of its area.

As the FODS proposal has pointed out, a significant portion of the DSC area is World Heritage listed and development is limited. This, combined with a low population growth rate, potentially places further pressure on ratepayers to pay higher rates and charges in the future.
Tourism

Since local government amalgamation in 2008, events such as the global financial crisis and the increasing value of the Australian dollar have had a decisive impact on tourism in Queensland.

The Tropical North is an extremely popular destination in Queensland. The region draws visitors from domestic (61 per cent) and international (39 per cent) markets. Most international visitors come from New Zealand and Europe with a recent increase in visitors from China. The Cairns airport is the gateway for the entire region.

Tourism Tropical North Queensland (TTNQ) was created to represent the region and reduce duplication. TTNQ is currently the Regional Tourism Organisation (RTO) representing the World Heritage listed Great Barrier Reef and Wet Tropics Rainforests. The region encompasses areas Cape York Peninsula and Torres Strait in the north, Cairns, Cairns Beaches, and Palm Cove, Port Douglas, Daintree and Cape Tribulation, Cooktown, Gulf Savannah, Kuranda, Atherton Tablelands and Mission Beach and south to Cardwell.

TTNQ has produced a document TTNQ Strategic Plan 2011-2015 which can be viewed on www.ttnq.org.au setting a strategic vision for the leadership and management of the tourism industry in the region.

This strategy identifies four key priorities for growth:
- grow market share and increase visitor expenditure
- strategic aviation growth
- sustainable funding
- destination management partnerships.

In order to deliver on these priorities, recommendations include working with local government on a number of initiatives.

A possible de-amalgamation would have a detrimental effect on levels of service to tourism and levels of service in general which would affect the attraction of the region to tourists.
Map ~ current Cairns Regional Council area
Map ~ former Douglas Shire Council area
Map ~ remaining Cairns Regional Council area