Analysis of Redcliffe De-Amalgamation Ratepayer Impacts

David Spearritt

May 2011
Analysis of Redcliffe De-Amalgamation Ratepayer Impacts

March 2011

David Spearritt
B Com (Qld), M Pub Ad (Qld), FCPA, FAICD

Director,
ORION Consulting Network Pty Ltd

ABN 65 048 737 179
PO Box 1391
Toowong BC QLD 4066
Tel: 1300 767 466
Email: david@orionco.net
Web: www.orionco.net

COPYRIGHT: The concepts and information contained in this document are the property of ORION Consulting Network Pty Ltd. Use or copying of this document in whole or in part without the written permission of ORION Consulting Network Pty Ltd constitutes an infringement of copyright.

LIMITATION: This report has been prepared on behalf of and for the exclusive use of ORION Consulting Network Pty Ltd’s Client, and is subject to and issued in connection with the provisions of the agreement between ORION Consulting Network and its Client. Forecasts in relation to future events are based on best estimates and information provided by the Client, however these estimates are subject to unforeseen variables. ORION Consulting Network accepts no liability or responsibility whatsoever for or in respect of any use, by any party, at any time.
1. Executive Summary

This analysis has been commissioned to independently assess the key revenue, cost and rating implications of de-amalgamating the former Redcliffe City Council (RCC) area from Moreton Bay Regional Council (MBRC) to create a new Redcliffe City Council (NRCC). Also included in this report is information on previous de-amalgamation studies relevant to the creation of NRCC.

Revenue
In 2010/11, 18 percent of the total MBRC rates revenue is sourced from the NRCC area. An 18 percent reduction in rates revenue for MBRC due to a de-amalgamation would not correspond to an equivalent reduction in operating costs. This is due to a number of factors such as loss of economies of scale in the delivery of various Council services. Therefore, a rates increase for MBRC would be likely unless additional savings in operating costs could be realised.

When analysing the financial implications of de-amalgamation, consideration should be given to the fact that a NRCC may not be responsible for water and sewerage. In 2007/08 water and sewerage charges accounted for 36 percent of total rates revenue in the former RCC just prior to amalgamation. This revenue is now collected by Unitywater.

If NRCC did not resume responsibility for water and sewerage, the costs associated with de-amalgamation as outlined in this report would need to be funded from a greatly reduced rates revenue base in the NRCC area.

Re-establishment Costs
Re-establishing RCC would cost at least as much as creating the new Gladstone Regional Council (GRC), both with a population in the mid - 50,000’s. GRC claimed that the amalgamation had cost over $15 million and QTC independently assessed their claim according its tight criteria as being over $3 million. After indentifying which of these costs would be relevant in a de-amalgamation, creating NRCC could cost between $2.7 million and $7.9 million up-front. In addition, there would be significant ongoing costs.

Ongoing Costs
The ongoing Councillor costs are likely to be in the order of $750,000 to $1 million per year, based on the formula for the number of Councillors specified by the Local Government Reform Commission, and the Councillor remuneration specified by the Local Government Remuneration and Disciplinary Tribunal (LGRDT).

The additional ongoing executive staff costs are likely to be in the order of $3.6 to $4.8 million per year, based on the minimum size executive team possible versus the similar sized GRC.

In relation to other staff costs, using a current estimate of the population of NRCC and assuming that NRCC will require a comparable FTE to population ratio as the former RCC, it is estimated that approximately 21 additional FTE will be required for NRCC than would be transferred from the current MBRC at de-amalgamation. At an approximate average cost per annum of $80,000 including superannuation and other employee entitlements, this equates to $1.7 million in additional staff costs for NRCC.

1 A NRCC could choose to accept responsibility for water and sewerage given the recent announcement by the State government that Councils may elect to resume control of water distribution and retail services.
Project Costs
MBRC is committed to provide funding of $105 million over six years towards a Redcliffe Rail Link. If apportioned on the population shares in the rail corridor, NRCC would need to contribute $46 million over 6 years. However, an NRCC with a reduced rate base would have significantly less capacity to pay for this from existing revenue sources. This would require additional rates in order to fund this project.

Due to its size, the current MBRC has increased capacity available for discretionary projects relative to the three former councils. This is particularly relevant for the former RCC as it had the smallest rates base of the three amalgamated councils.

This increased capacity for discretionary projects has led to a significant increase in this type of work benefiting Redcliffe. An example is the significantly increased budget provided for the Redcliffe CBD Streetscape project currently being undertaken.

Rating Implications
In order to fund the estimated one off, ongoing and project costs outlined in this report, NRCC would need to impose an immediate rate increase of between 37% and 56% following de-amalgamation.

It may be possible to implement measures to spread the funding of some of the one off additional costs over a number of years. However, a significant immediate rate increase would still be required to cover the additional costs associated with the day to day operations of NRCC. Failure to do this will severely impact on the long term financial sustainability of the NRCC.

Previous De-amalgamation Studies
The above mentioned rating increases are consistent with previous de-amalgamation studies.

Office of Local Government Commissioner (Queensland)

In 1994, the Office of Local Government Commissioner commissioned independent consulting analysis to determine the impact of several boundary change options, including creating a new Council based on Beenleigh, with an initial population of 46,500 which is just under that of former RCC.

The independent review found that such a Council would be viable with a 35 percent rate increase, although it would have 30 percent less discretionary funds than that available as part of a larger Council. This was before the extensive computerisation of local government, which significantly adds to the cost of restructuring.

Delatite Shire (Victoria)

In 2002 Delatite Shire (Victoria) was de-amalgamated into two Councils, and is often portrayed as being a successful example of a de-amalgamation. An independent panel assessed that it would be viable to de-amalgamate if rates in the new larger Council increased by 12 percent and the new smaller Council by 16.5 percent.

It is important to note that these recommended rates increases occurred before de-amalgamation. In the year after de-amalgamation both new Councils increased their rates by over 30 percent. Since de-amalgamation, even after adjusting for population increases and local government inflation, rates are now considerably higher. In 2006 rates were 78 percent and 72 percent higher in the larger and smaller Councils respectively than at the time of de-amalgamation.

Moreover, both of these Councils have benefited from increasing financial assistance grants whereas MBRC and NRCC will always be limited to minimum grants because of their relative size.
2. Revenue

In 2010/11, 18 percent of the total MBRC rates revenue is sourced from the NRCC area. An 18 percent reduction in rates revenue for MBRC due to a de-amalgamation would not correspond to an equivalent reduction in operating costs. This is due to a number of factors such as loss of economies of scale in the delivery of various Council services.

Therefore, a rates increase for MBRC would be likely unless additional savings in operating costs could be realised. An example of this effect is detailed in Section 7.2 of this report. As a result of the de-amalgamation of Delatite Shire Council in Victoria, the new larger council increased rates by 12 percent at de-amalgamation.

When analysing the financial implications of de-amalgamation, consideration should be given to the fact that a NRCC may not be responsible for water and sewerage. In 2007/08 water and sewerage charges accounted for 36 percent of total rates revenue in the former RCC just prior to amalgamation. This revenue is now collected by Unitywater.

This reduction in rates revenue would be partially offset by a reduction in costs associated with no longer providing water and sewerage services and the anticipated returns from Unitywater. If NRCC did not resume responsibility for water and sewerage, the costs associated with de-amalgamation as outlined in this report would need to be funded from a greatly reduced rates revenue base in the NRCC area.

---

2 A NRCC could choose to accept responsibility for water and sewerage given the recent announcement by the State government that Councils may elect to resume control of water distribution and retail services.
3. Re-establishment Costs

Establishing any new organisation requires a wide range of one-off and on-going expenses. After the 2008 amalgamations, a large proportion of Councils claimed that the amalgamations had caused significant costs to be incurred. The Queensland Government commissioned the Queensland Treasury Corporation (QTC)\(^3\) to provide an independent assessment of these claims. A total of 24 Councils submitted amalgamation cost claims, which were rigorously scrutinised by the QTC. The criteria were set by the Queensland Government Department of Infrastructure and Planning (DIP). It should be noted that MBRC did not submit a claim because it considered that it had achieved more cost savings than amalgamation costs.

The 24 Councils claimed a total of $371,435,000 in amalgamation costs. Of this, QTC assessed $194,800,000 as being legitimate against its criteria. The QTC assessment shows the major cost items were information technology and communication systems, senior staff and Councillor costs. The following table shows the type of costs (claimed and assessed) as a percentage of the total costs (claimed and assessed). The third column shows whether such costs would be applicable to a de-amalgamation of MBRC.

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Percentage of Total Costs Claimed</th>
<th>Percentage of Total Costs Assessed by QTC</th>
<th>Applicable to MBRC De-amalgamation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages Parity</td>
<td>26.67%</td>
<td>0%</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>ICT</td>
<td>24.13%</td>
<td>43.78%</td>
<td>Applicable</td>
</tr>
<tr>
<td>Senior Staff/Staff Costs</td>
<td>16.81%</td>
<td>18.74%</td>
<td>Applicable</td>
</tr>
<tr>
<td>Councillor Costs</td>
<td>6.75%</td>
<td>9.49%</td>
<td>Applicable</td>
</tr>
<tr>
<td>Buildings &amp; relocations</td>
<td>5.98%</td>
<td>7.9%</td>
<td>Applicable</td>
</tr>
<tr>
<td>Change Management</td>
<td>1.87%</td>
<td>2.36%</td>
<td>Applicable</td>
</tr>
<tr>
<td>Statutory Plans &amp; Mapping</td>
<td>6.6%</td>
<td>4.58%</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Branding</td>
<td>2.12%</td>
<td>3.76%</td>
<td>Applicable</td>
</tr>
<tr>
<td>LTC and reform costs</td>
<td>1.72%</td>
<td>2.04%</td>
<td>Applicable</td>
</tr>
<tr>
<td>Payroll Tax</td>
<td>0.83%</td>
<td>1.66%</td>
<td>Applicable</td>
</tr>
<tr>
<td>Other (insurance, elections, cars etc)</td>
<td>6.53%</td>
<td>5.7%</td>
<td>Applicable</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td></td>
</tr>
</tbody>
</table>

The main difference in the claimed cost items and the QTC assessment was in relation to QTC’s disregard for wage parity costs, since it regarded these costs as being discretionary. However, these costs would not be applicable in a de-amalgamation since the staff would come from within the equalised wage environment of MBRC. However, it should be noted, that this created a permanently higher cost structure, which cannot be unwound by de-amalgamation.

\(^3\) Queensland Treasury Corporation, “Review of Local Government Amalgamation Costs Funding Submissions – Final Summary Report, August 2009
QTC rigorously reviewed each Council’s cost claims and excluded:

- Sunk costs or costs which would have been incurred anyway,
- Discretionary costs,
- Costs not directly attributable to the amalgamation process,
- Costs not fully supported by documentation, and
- Costs not consistent with the QTC eligibility criteria.

QTC also identified cost savings associated with the amalgamation process, including:

- Improved asset utilisation and procurement,
- Combined town plans, and
- Other operational savings.

As all of the systems, governance and executive structures of the former RCC have been decommissioned and would need to be re-created it is highly likely that the recreation of NRCC would incur costs at least equal to an equivalent sized amalgamating Council.

The closest sized Council in the Queensland amalgamations was GRC, which had a 2006 combined population of 51,351, compared with the former RCC which had a population of 53,525 at the same time. GRC claimed amalgamation costs of $15,316,400, and QTC assessed that it had legitimate costs of $3,113,985.

If the percentages in Table 1 are applied to the relevant costs (both claimed and assessed) costs for GRC, the establishment costs associated with de-amalgamation can be identified (see Table 2).

For the purposes of calculating likely establishment costs, it has been assumed that 50 percent of senior staff/staff costs are establishment costs, and Councillor costs have been removed from the calculations as they are all ongoing costs that are addressed in Section 4 below.

### Table 2 Estimated Costs for Establishment of NRCC

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>GRC Claimed Cost</th>
<th>QTC Assessed Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT</td>
<td>3,695,847</td>
<td>1,363,303</td>
</tr>
<tr>
<td>Senior Staff/Staff Costs</td>
<td>1,287,343</td>
<td>583,561</td>
</tr>
<tr>
<td>Buildings &amp; relocations</td>
<td>915,921</td>
<td>246,005</td>
</tr>
<tr>
<td>Change Management</td>
<td>286,417</td>
<td>73,490</td>
</tr>
<tr>
<td>Branding</td>
<td>324,708</td>
<td>117,086</td>
</tr>
<tr>
<td>LTC and reform costs</td>
<td>263,442</td>
<td>63,525</td>
</tr>
<tr>
<td>Payroll Tax</td>
<td>127,126</td>
<td>51,692</td>
</tr>
<tr>
<td>Other (insurance, elections, cars etc)</td>
<td>1,000,161</td>
<td>177,497</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>7,900,965</strong></td>
<td><strong>2,676,159</strong></td>
</tr>
</tbody>
</table>

The use of both claimed costs and assessed costs establishes a range for the costs likely to be associated with the establishment of NRCC.
4. On-going Costs

In relation to ongoing costs, amalgamating Councils usually have the advantage of medium to long-term operational savings once the up-front costs have been incurred. However, in the case of a de-amalgamation these benefits do not exist.

Instead, operating costs generally increase as a result of de-amalgamation. These costs need to be assessed from first principles. An obvious on-going cost relates management staff and Councillors. NRCC would require a new management structure. The minimum structure would be a CEO and four Directors, and secretarial support staff.

4.1 Councillor Costs

NRCC would be a category 5 Council for determining the number Councillors and their remuneration. According to the LGRDT, there would need to be 8 Councillors and a Mayor for a Council of the size of NRCC. Councillors would be eligible to the following salary ranges:

<table>
<thead>
<tr>
<th>Position</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayor</td>
<td>$117,080</td>
<td>$133,800</td>
</tr>
<tr>
<td>Deputy Mayor</td>
<td>$76,940</td>
<td>$90,320</td>
</tr>
<tr>
<td>Councillor</td>
<td>$66,900</td>
<td>$80,280</td>
</tr>
</tbody>
</table>

Table 3 Salary Ranges for Councillors of Category 5 Councils

According to the scales above, Councillor salaries for the NRCC would be in the range of $662,320 to $786,080 per annum.

In addition, Councillors are entitled to superannuation and other support costs. The GRC Annual Report 2009-10 shows that the total cost of Councillor remuneration was $892,000. Therefore, likely Councillor costs for a NRCC would be in the range of $750,000 to $1,000,000 per year.

It should be noted that even without Redcliffe, the remaining MBRC is likely to remain a category 8 Council for determining the number of Councillors and remuneration purposes. Therefore, there would be no savings for MBRC.

4.2 Executive Staff Costs

A new Council would require a Chief Executive Officer (CEO), an executive team, and support staff. The GRC Annual Report 2009-10 shows that the Office of the CEO has a budget of $2,558,000, and contains seven staff including the CEO and Internal Auditor. The Annual Report shows that the Council has 9 Directors reporting to the CEO. The Annual Report does not show the cost of the Directors and related costs.

Applying normal Local Government executive salaries, superannuation, vehicles and secretarial support, 9 Directors would cost approximately $2.25 million per year. The minimum number of Directors would be 4 however these would attract a higher salary than assumed for GRC because of the wider range of responsibilities. Salary packages would still cost in the order of $1.1 million per year, plus administrative and office support. Overall, the executive structure would cost in the order of $3.6 million to $4.8 million per year for NRCC.

De-amalgamation is unlikely to reduce MBRC below its current executive structure. MBRC has been gradually reducing its executive structure as opportunities have arisen, and now has only five Directors reporting to the CEO. Sunshine Coast Regional Council (SCRC) has a population similar to that of MBRC and also operates with five Directors.
4.3 Other Staff Costs

Since the amalgamation in 2008, MBRC has been consistently and continually reducing its staff numbers and cost structure. Figure 1 below shows the significant reduction in management positions from the 3 Councils prior to amalgamation, compared with the current situation. This cost reduction would be lost if NRCC de-amalgamated, and would mean that NRCC would operate at a higher cost structure than MBRC currently achieves.

Figure 1

Similarly, MBRC has been progressively reducing its overall workforce size due to amalgamation efficiencies. Some of this reduction is due to the transfer of a number of employees to Unitywater. However, even after taking these transfers into account, MBRC is currently operating with 12 percent fewer employees than the combined employee numbers prior to amalgamation in 2008. This is despite the Council servicing an increasing population. Figure 2 below shows this reduction:
In 2008 at the time of amalgamation, the former RCC employed approximately 249 full time equivalent (FTE) staff, after being adjusted to exclude water and sewerage staff. With a population of approximately 55,000 at the time this equated to approximately 4.53 FTE per 1,000 residents.

As at March 2011, MBRC employs 1,576 FTE staff with an estimated population of 377,000. This equates to approximately 4.18 FTE per 1,000 residents.

Based on the ratios above, using a current estimate of the population of NRCC and assuming that NRCC will require a comparable FTE to population ratio as the former RCC, it is estimated that approximately 21 additional FTE would be required for NRCC than will be transferred from the current MBRC at de-amalgamation. At an approximate average cost per annum of $80,000 including superannuation and other employee entitlements, this equates to $1.7 million in additional staff costs for NRCC.

It is important to note that the FTE to population ratio for MBRC after de-amalgamation will most likely increase due to reduced economies of scale. Whilst the cost implications of this effect cannot be accurately predicted, if the FTE to population ratio were to increase by 2 percent, this would equate to approximately 30 additional FTE at a cost of approximately $2.4 million.
5. Project Costs

5.1 Redcliffe Rail Link

The Queensland Government has announced plans to construct a Rail Link to Redcliffe. As part of the cost sharing arrangement, MBRC is required to commit $105 million in cash contributions over six years to this project.

In return, the Council will receive ownership over a number of local infrastructure assets (for example new roads, bridges, pathways and land) that need to be constructed as part of the project. At this stage it is anticipated that the value of the assets received as a result of the project will be equivalent to the Council’s cash contribution.

Figure 3 below outlines the route for the new rail link through the Moreton Bay region.

**Figure 3 – Moreton Bay Rail Link Corridor by Zone**

Based on the estimated population within each of the zones, the former RCC encompasses approximately has 37 percent of the total population in the rail corridor area. Accordingly, NRCC’s proportion of the contribution to this link would be approximately $39 million over the term of the project.

As this project is capital in nature, it would be possible for NRCC to borrow to fund this contribution however repayment of this debt would be approximately $4.2 million per annum over a 15 year period.
5.2 Redcliffe Streetscape Project

Due to its size, the current MBRC has increased capacity available for discretionary projects relative to the three former councils. This is particularly relevant for the former RCC as it had the smallest rates base of the three amalgamated councils.

This increased capacity for discretionary projects has led to a significant increase in this type of work benefiting Redcliffe. An example is the significantly increased budget provided for the Redcliffe CBD Streetscape project currently being undertaken.

Figure 4 below graphs the budget allocation provided to this project by the former RCC (in red) and the budget provided to the project by MBRC (in blue).

Figure 4

This level of discretionary spending will be difficult to achieve for a future NRCC without increasing rates.
6. Rating Implications

The costs outlined above associated with the establishment of NRCC are summarised in Table 4 below. It is important to note that not all de-amalgamation costs have been identified in this report. For example, the creation of NRCC would also cause an increase in material costs.

Table 4  Cost Summary of De-amalgamation

<table>
<thead>
<tr>
<th></th>
<th>Lower Range</th>
<th>Higher Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated one off establishment costs</td>
<td>2,676,159</td>
<td>7,900,965</td>
</tr>
<tr>
<td>Predicted on-going costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Councillor costs</td>
<td>750,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Executive staff costs</td>
<td>3,600,000</td>
<td>4,800,000</td>
</tr>
<tr>
<td>Additional staff costs</td>
<td>1,700,000</td>
<td>1,700,000</td>
</tr>
<tr>
<td>Total predicted on-going costs</td>
<td>6,050,000</td>
<td>7,500,000</td>
</tr>
<tr>
<td>Rail link contribution (Required for 15 years)</td>
<td>4,200,000</td>
<td>4,200,000</td>
</tr>
</tbody>
</table>

Based on the current rate revenue received by MBRC for the former RCC local government area and the expected additional costs above, Table 5 below shows the immediate rate increases required for NRCC following de-amalgamation.

Table 5 – Estimated Rate Increases

<table>
<thead>
<tr>
<th></th>
<th>Lower Range</th>
<th>Higher Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated one off establishment costs</td>
<td>7.67%</td>
<td>22.63%</td>
</tr>
<tr>
<td>Total predicted on-going costs</td>
<td>17.33%</td>
<td>21.49%</td>
</tr>
<tr>
<td>Rail link contribution (Required for 15 years)</td>
<td>12.03%</td>
<td>12.03%</td>
</tr>
<tr>
<td>Total Rate Increase</td>
<td>37.03%</td>
<td>56.15%</td>
</tr>
</tbody>
</table>

The calculations in the table above are predicated on funding the one off establishment costs completely in the first year following de-amalgamation. Whilst it is possible to spread the funding of these costs over a number of financial years, the remaining additional costs associated with the rail link contribution and the increased on going costs would need to be funded by an immediate rate increase to ensure the long term financial sustainability of NRCC.
7. Previous De-Amalgamation Studies

The impact of de-amalgamation on rates can also be illustrated through previous studies as summarised below. Whilst both of these examples refer to councils that were considerably smaller than MBRC, the likely increase in rates highlighted show what could potentially occur in the creation of a NRCC.

7.1 Office of Local Government Commissioner (Queensland)

In 1994, the Office of Local Government Commissioner arranged for an independent analysis to determine the impact of several boundary change options, including creating a new Council based on Beenleigh, with an initial population of 46,500 with is just under that of former RCC. The independent review found that such a Council would be viable with a 35 percent rates increase and would have 30 percent less discretionary funds than that available as part of a larger Council.

7.2 Delatite Shire (Victoria)

The De-amalgamation of Delatite Shire Council (Victoria) into the rural City of Benalla and Mansfield Shire is the only real example of a de-amalgamation of Councils in Australia. As such it is often portrayed as a successful example of a de-amalgamation, and is often used to support the case for de-amalgamation of other Councils in Australia.

Delatite Shire was created in 1994 as a forced amalgamation of Benalla City, Benalla Shire, Mansfield shire, and parts of Violet Town during the Kennet government local government reform process. During the reviews that led to the creation of Delatite Shire, the Councils of Benalla City, Benalla Shire and Mansfield Shire favoured options which excluded Mansfield Shire from joining with the two Benalla Councils. This was because they were geographically separated communities with very different economic bases and communities of interest. At the time of the announcement of the amalgamation, 70 percent of the Mansfield urban residents marched in the main street.

At the time of de-amalgamation the population of Benalla City was approximately 14,500 and Mansfield Shire had a population of 7,900.

The first term of Delatite Shire Council was run by appointed Commissioners, from 1994 to 1997. As with other Victorian amalgamations, the Commissioners were required to make substantial savings and reduce rates. In order to achieve this, the Commissioners deferred infrastructure replacement and maintenance, which resulted in rapid deterioration of the road network. Mansfield residents complained that service delivery funds were being diverted towards amalgamation costs, and started making calls for de-amalgamation.

Elected Councillors ran the Council from 1997 to the 2000 elections, and then from 2000 until the Council was dissolved in 2002 for de-amalgamation.

Significant tensions developed in relation to the location of Council staff and the administrative centre/s, with fear of closure of the Mansfield office for administrative efficiency.

4 Dr Peter Chen, “They’re Not Like Us” Centre for Public Policy, Department of Political Science, University of Melbourne. October 2002
An Independent Review Panel was established to examine the feasibility of de-amalgamating Delatite Shire. The panel took the view that the cost of separating the new Benalla would fall within the range of 0.1 percent - 1.3 percent and 16.8 percent - 19.5 percent for new Mansfield. This did not include any allowance for wage increases and normal inflation, which the Shire estimated would be up to 8.3 percent for 2002/03. Based on advice from the Delatite Shire Council, the panel considered that these factors would add another 7 percent to 8 percent to the cost of operating the new municipalities in 2002/03.

Ultimately, rate increases of 12 percent for new Benalla, and 16.5 percent for new Mansfield were proposed by the panel. Senior management advised that it was likely that the Council would adopt the 12 percent and 16.5 percent rate increases for 2002/03, in advance of the proposed split taking place. Delatite Council budget documents show that these increases were implemented prior to de-amalgamation.

The panel therefore compared the proposed rates for the new shires with the median rates for other small shires throughout the State. At the time it was predicted that new Benalla would have a median rate of about $721 per assessment and new Mansfield would have a median rate of about $750, compared with the median for other small shires of $621.

Benalla's 2003/04 annual report shows a $1 million operating deficit. However, if capital items such as paper profits from asset revaluations are excluded, the operating deficit was really $3 million, or 18.2 percent of revenues despite the 12 percent rate increase before de-amalgamation. Therefore, both Councils were forced to substantially increase rates in the 2002-03 budget as shown in Tables 6 and 7 below.

### Table 6 Proposed Rate Increases

<table>
<thead>
<tr>
<th></th>
<th>Upon Separation</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delatite</td>
<td>-</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>New Benalla</td>
<td>12%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>New Mansfield</td>
<td>16.5%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>

### Table 7 Actual Rate Increases

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benalla</td>
<td>12%</td>
<td>37.8%</td>
<td>10.2%</td>
<td>10.3%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Mansfield</td>
<td>16.5%</td>
<td>33.2%</td>
<td>8.2%</td>
<td>6.2%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

In a recent article in the Sunshine Coast Daily, current Mansfield Councillor Ingpen stated that “The de-amalgamation process and the aftermath was not all ‘beer and skittles’ … We went to the people and said you will have to put up with two significant rate increases to cover the cost of this. … they said they would take it”.

It is interesting to note that Green Papers distributed in the community in February 2001 foreshadowed rate increases of 25 percent to 31 percent in addition to normal rate increases.

---

8. Summary

This report has undertaken an analysis of the key revenue, cost and rating implications of de-amalgamating the former RCC from MBRC to create a NRCC. Issues considered in this report included:

- Revenue implications for both MBRC and NRCC;
- Re-establishment costs for NRCC;
- Ongoing costs for NRCC (Councillor, executive staff and other staff costs);
- Project costs (Redcliffe rail link and Redcliffe streetscape project); and
- Rating implications.

Previous de-amalgamation studies in Queensland and Victoria were also considered to further assist Council in determining the likely impact of de-amalgamation on rates for both MBRC and NRCC.