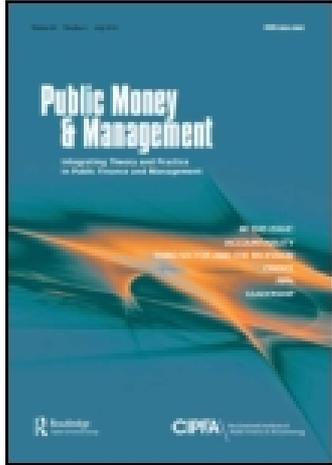


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Separation anxiety: an empirical evaluation of the Australian Sunshine Coast Regional Council de-amalgamation

Joseph Drew and Brian Dollery

As part of the broader Queensland local government amalgamation programme, in 2008 Noosa Shire Council, Caloundra City Council and Maroochy Shire Council were compulsorily merged into a new Sunshine Coast Regional Council. Five years on, unyielding public opposition and a new Queensland Government has secured de-amalgamation of Noosa Shire from the Sunshine Coast Regional Council. Given the almost complete absence of empirical literature on municipal de-amalgamation, the Noosa case provides a rare opportunity to empirically assess a de-amalgamation process. Accordingly, this paper provides a critical evaluation of the de-amalgamation analysis prepared by the Queensland Treasury Corporation. Far from placating residents, the de-amalgamation plans are likely to provoke further acrimony due not only to equity problems, but also a lack of democratic representation on key decision-making bodies. On a broader level, this case study serves as a template for the theory and practice associated with any municipal de-amalgamation—either in Australia or abroad.

Keywords: Australia; de-amalgamation; local government; Noosa Shire.

While structural reform of local government through compulsory council consolidation has been employed across the developed world to varying degrees of intensity, Australian policy-makers have relied comparatively heavily on this policy instrument (Dollery *et al.*, 2012a). Advocates of amalgamation typically argue that it can improve operational efficiency, strengthen council capacity, and generate cost savings. However, opponents of mergers stress the divisive nature of amalgamations, the absence of supportive empirical evidence, the equivocal outcomes observed in case studies, and the diminution of local democracy (Faulk and Hicks, 2011). In general, the academic literature has been sceptical of the outcomes of municipal mergers and the weight of empirical work has fostered doubt over the efficacy of amalgamation (Dollery and Robotti, 2008; Lago-Penas and Martinez-Vazquez, 2013).

By contrast, almost no scholarly effort has been invested in the analysis of council de-amalgamations in the wake of compulsory consolidation, no doubt because de-amalgamation is a rare phenomenon. An exception is Dollery *et al.* (2012b) who developed

a normative analytical framework for the design of de-amalgamation programmes.

The design of a de-amalgamation programme should be guided by five principles:

- De-amalgamation entities must be carefully designed.
- De-amalgamation proposals must have demonstrable community support.
- The new post-de-amalgamation entities must be viable.
- Transaction costs and transformation costs must be minimized.
- Potential sources of conflict must be minimized.

The fifth condition requires some elaboration since it essentially focuses on the ‘perceived equity of the “division of the spoils”’ (Dollery *et al.*, 2012b, p. 611). Assets and liabilities should be distributed, wherever possible, on the basis of the pre-amalgamation positions. However, to date no empirical work exists to show exactly how this might occur nor is there any conceptual work on how to moderate the vested interests at play between

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the proponent group, residual council and state government. This paper addresses this gap by critically examining the proposed de-amalgamation of Sunshine Coast Regional Council (SCRC) in the wake of the 2007/08 compulsory consolidation process in Queensland.

Amalgamation, de-amalgamation and de-amalgamation financial forecasts

In 2007, the (then) Beattie Labor Government executed a forced amalgamation programme which reduced the number of councils in Queensland from 157 to just 73 entities. The sudden and drastic nature of the compulsory consolidation programme aroused much bitterness from disaffected residents, derived from fear of a loss of local identity and local self-determination (NIA, 2012), shock at the rapid implementation of recommendations for amalgamation (just three months from the establishment of the Local Government Reform Commission (LGRC) (Dollery *et al.*, 2012a), and disaffection at the severely limited community consultation which took place.

The formation of the SCRC did little to dampen the ardour of disgruntled Noosa residents. Indeed, four independent bodies were created to pursue de-amalgamation, perhaps heartened by the successful campaign of the Mansfield Residents and Ratepayers Association to de-amalgamate from the Victorian Delatite Shire a decade earlier. These four bodies united in September 2010 to form the Noosa Independence Alliance (NIA) to agitate for a referendum on de-amalgamation. NIA member entities may have been a key motivation for the opposition Liberal National Party (LNP) adopting a de-amalgamation platform (Dorizas, 2008). The LNP subsequently won the 2012 election in a landslide of 78 (out of 89) seats in the legislative assembly (Electoral Commission Queensland, 2012a).

As part of the new Queensland Government's *First 100 Day Action Plan*, a Queensland Boundaries Commissioner (QBC) was appointed on 29 June 2012 (QBC, 2012). The QBC *Queensland Boundaries Commissioner Report: Proposed Noosa De-amalgamation* was published in November 2012, drawing heavily on financial modelling by the Queensland Treasury Corporation (QTC). On the basis of this modelling, the Commissioner determined that 'although there are many reasons for the current SCRC to remain as it is, the Commissioner's view is that a new Noosa Shire council would be financially viable and there

are enough reasons to allow the people of Noosa to decide the future direction of their local representation' (QBC, 2012, p. 2). Subsequently a referendum on de-amalgamation was held on 9 March 2013 and an 81% majority vote for de-amalgamation was declared (Electoral Commission Queensland, 2012b).

The QBC report outlines the foundation for the financial modelling to follow in its declaration that 'successful Proponent Councils (Noosa) will be required to pay their own de-amalgamation costs as well as the de-amalgamation costs of the Remaining Council (SCRC)' (QBC, 2012, p. 8). However 'incremental annual costs incurred by either the Proponent Council or the Remaining Council are not considered a cost of de-amalgamation' (QBC, 2012, p. 9). This demand on the residents of Noosa should be considered in light of the fact that they had also contributed to the cost of the 2008 amalgamation. Total amalgamation costs were estimated by the SCRC at AS\$13.72 million, but assessed (using restrictive criteria) by QTC at A\$4.14 million (QTC, 2009, p. 14).

The starting point for estimating de-amalgamation costs was the NIA submission to the minister for local government (NIA, 2012). This submission estimated one-off costs at A\$2 million, well down from a previous estimate of A\$4 million by DeChastel and Associates on behalf of the NIA 19 months earlier (NIA, 2012). The NIA (2012) argued that the costs should be well below that of the three-entity amalgamations of 2008, given that:

- De-amalgamation was a less complex process.
- Water and sewerage infrastructure had been divested since amalgamation.
- No name change or poll was required for the residual SCRC.

NIA recommended that fixed assets be allocated according to their geographical location, which was the same method adopted for the Delatite Shire de-amalgamation in Victoria a decade earlier (NIA, 2012, p. 36; Local Government (Delatite Shire) Review Panel, 2002). Moveable assets were proposed to be apportioned with respect to the original contribution by Noosa Shire in 2008 (NIA, 2012, p. 36). Moreover, NIA (2012, p. 35) recommended liabilities be allocated according to the following methodology:

- 'Any specific liabilities that apply to the geographic location of Noosa would be

Table 1. Demographic information.

| | <i>Existing SCRC</i> | <i>Remaining council</i> | <i>Proponent council</i> | <i>Total</i> |
|----------------------------|----------------------|--------------------------|--------------------------|--------------|
| Area (km ²) | 3,126 | 2,257 | 869 | 3,126 |
| Population | 316,858 | 255,139 | 61,719 | 316,858 |
| No. of rateable properties | 152,532 | 122,821 | 29,711 | 152,532 |
| No. of voters | 211,195 | 176,619 | 34,576 | 211,195 |
| Councillors | 13 | 11 | 7 | 18 |
| No. of staff transferring | 1,939 | 1,532 | 407 | 1,939 |

Source: Queensland Treasury Corporation (2012).

- allocated to the new Noosa Council.
- Existing loans of the former Noosa Council as at 15 March 2008 will continue to be met by the new Noosa Council.
 - Additional loans incurred by SCRC since March 2008 will be apportioned based on the percentage of capital expenditure across the region and the new Noosa Council will assume their proportion of those loans'.

The NIA proposal did not explicitly specify a staffing requirement for Noosa Council, but it did 'assume similar staffing levels to the former Noosa Council less the water and sewerage staff transferred to UnityWater' (NIA, 2012, p. 40). This would appear to be 405 staff (470 FTE in Noosa less 65 transferred to UnityWater (NIA, 2012, p. 10)). The NIA presciently noted that 'there is a risk that the underlying employee costs could increase if additional staff above previous establishment levels are transferred to new Noosa Council' (NIA, 2012, p. 40).

The SCRC initially adopted a neutral stance in relation to the de-amalgamation (QBC, 2012). However, on 18 October 2012, the SCRC passed a resolution 'advising the Council's preference is to retain the current unified local government' (QBC, 2012, p. 5). It subsequently provided a cost estimate of A\$2.17 million in one-off de-amalgamation costs and A\$21.77 million in property plant and equipment (PPE) costs. The one-off cost estimate was just over 24% above the NIA estimate. However, the SCRC PPE estimate was a staggering 8,609% above the NIA estimate. The reasons for this discrepancy are threefold. First, the SCRC included an estimate of almost A\$12 million for ICT expenditure, while the NIA 'assumed that the ICT hardware currently housed at Tewantin will be transferred to the new Noosa Council, as well as the desktop computers of the transferring staff' (NIA, 2012, p. 47). Second, the SCRC included a cost of A\$7 million: 'to fund a new waste transfer station in the event that it is denied access to the...landfill within the Proponent Council area' (QTC, 2012, p. 17). The NIA made no provision for this item.

Finally, the SCRC estimated a cost of almost A\$3 million for PPE including 'yellow goods' (i.e. earth-moving plant), while the NIA assumed that 'other physical assets such as plant and equipment would be allocated to the new Noosa Council in the same proportion as existed at 15 March 2008' (NIA, 2012, p. 36).

Key demographic information for the existing and proponent councils is contained in table 1. The QTC (2012) used this information and its own modelling to settle on an estimate of A\$3.6 million for one-off costs which was 65% higher than the SCRC and 106% higher than NIA estimate. For its PPE estimates the QTC (2012) excluded the A\$7 million cost for a new waste station, kept the other plant estimate approximately the same as SCRC, and revised down the SCRC ICT estimate by 66% based on a report from KPMG. These revisions are summarized in tables 2 and 3. Incremental annual recurring costs were also estimated by QTC to allow for fully informed decision-making by Noosa voters. These costs included A\$525,000 for councillor remuneration, A\$1,174,000 for additional salaries and A\$932,000 for 'diseconomies of scale for proponent council' (QTC, 2012, p. 19). The final QTC estimates were included in the pre-poll letter to voters provided by the QBC prior to the election (see table 4). The next section examines the accuracy of the incremental annual recurring cost information disseminated prior to the referendum.

Incremental annual recurring costs

Incremental annual recurring costs reflect the 'expenditure associated with administering an additional council' and are summarized in table 5 (QTC, 2012, p. 18). The first item relates to councillor remuneration, based on the provision of seven councillors, or one more than the recommendation of the NIA (QTC, 2012, p. 15). No reason is given for the additional councillor. However, it is worth noting that only five of the 73 local authorities in Queensland have an even number of elected representatives, which may derive from a

Table 2. One-off de-amalgamation costs.

| | <i>QTC estimate</i> | <i>Existing council estimate</i> | <i>Proponent council estimate</i> |
|--|---------------------|----------------------------------|-----------------------------------|
| Governance, planning and implementation | 1,411,000 | 379,520 | 1,325,000 |
| Industrial relations | 79,000 | 240,000 | |
| Community and staff engagement | 637,000 | 433,140 | 300,000 |
| Legal | 222,000 | 180,000 | 50,000 |
| Accounting and finance due diligence | 60,000 | 42,000 | |
| New ICT | 1,176,000 | 800,000 | |
| Re-imburement to remaining council for new property, plant and equipment | 20,000 | 100,000 | |
| Other | | | 75,000 |
| <i>Total</i> | <i>3,605,000</i> | <i>2,174,660</i> | <i>1,750,000</i> |

Source: Queensland Treasury Corporation (2012).

Table 3. Property, plant and equipment de-amalgamation costs.

| | <i>QTC estimate</i> | <i>SCRC estimate</i> | <i>NIA estimate</i> |
|----------------|---------------------|----------------------|---------------------|
| New ICT assets | 4,040,000 | 11,864,038 | 250,000 |
| Additional PPE | 3,375,000 | 9,908,723 | nil |
| <i>Total</i> | <i>7,415,000</i> | <i>21,772,761</i> | <i>250,000</i> |

Source: Queensland Treasury Corporation (2012).

Table 4. De-amalgamation poll information.

| <i>Item</i> | <i>QTC estimate</i> |
|--|---------------------|
| <i>Total one-off costs:</i> These costs will be incurred in the first year as a direct result of de-amalgamation and are made up of governance, planning and implementation costs; industrial relations costs; community and staff engagement costs; legal due diligence costs; accounting and finance due diligence costs; new ICT costs. | A\$3,605,000 |
| <i>Total one-off fixed assets costs:</i> These costs relate to the purchase of new ICT equipment and additional new plant and equipment that will be required by the new council to maintain service delivery standards. While these items are required in the first year, being assets the costs to ratepayers are spread over the life of the asset. | A\$7,415,000 |
| <i>Total incremental annual recurring costs:</i> These costs reflect the incremental annual expenditure associated with administering a new council and include councillor remuneration, salaries and wages costs; plus an allowance for reduced economies of scale (for example increased costs due to loss of purchasing power of a larger single entity). | A\$2,631,000 |

Source: Queensland Boundaries Commissioner (2013).

deliberate attempt to avoid 'hung' councils. The additional councillor adds A\$59,746 p.a. plus expenses to incremental recurring costs (Local Government Remuneration and Discipline Tribunal, 2012).

Salaries and wages cost estimates refer only to the additional wages incurred as a result of de-amalgamation. These salaries are based on an additional CEO and four senior executives. This is the same arrangement as Gladstone Regional Council, which has a similar resident population (Gladstone Regional Council, 2012).

The final QTC estimate for annual recurring costs involves diseconomies of scale. The QTC (2012) estimated an expense of A\$932,000 p.a. for diseconomies of scale arising from the de-amalgamation: 'It is *assumed* that

the two smaller entities would be subject to reduced economies of scale compared to the Existing Council' (QTC, 2012, p. 19; emphasis added). No quantitative analysis is provided for these assumptions. Table 6 displays the results of a fully specified empirical model of scale economies in Queensland local governments, before and after the 2008 amalgamations. For the 2006/07 financial year, econometric analysis indicates that scale economies occurred for populations up to 98,000 residents, with diseconomies of scale after this point. For the 2009/10 financial year, a similar pattern of scale economies occurred about the local *minima* of 99,000 residents. With an existing population of 316,858, our analysis suggests that the SCRC is operating

with diseconomies of scale. However, the proponent council's population of 61,719 will place it firmly within the domain of economies of scale. Accordingly, the new Noosa Council is likely to experience the exact antithesis of the QTC estimate: it should secure savings through scale economies. A second approach to the question of post-de-amalgamation scale economies is to examine operating results before and after amalgamation. The combined operating results of the three councils prior to amalgamation were: surplus of A\$152.8 million in 2007, A\$159.05 million surplus in 2006 and A\$160.78 million surplus in 2005 (Caloundra City, 2006; 2007; Noosa Shire, 2006; 2007; Maroochy Shire, 2006; 2007). Operating results for SCRC (2010; 2011; 2012) in subsequent years were A\$126 million surplus (2010 financial year), A\$372 million deficit (2011 financial year) and A\$80 million surplus (2012 financial year), excluding asset revaluations. It follows that both econometric modelling and the historical operating results provide compelling evidence against the QTC estimate based on its 'assumptions' only.

One-off costs

Table 2 provides a summary of the one-off transition cost estimates by QTC (2012), SCRC and NIA (2012). Some significant costs incurred during the Delatite de-amalgamation appear to be omitted (Benalla Shire Council, 2003). These include fleet, corporate signage, advertising and promotion, consultancy and stationery costs. It is possible that these costs have been included under different headings in table 2. However, for the purposes of full disclosure and accountability, it is critical that large expenditure items, such as consultancy costs, are accounted for separately. It is also important that de-amalgamation costs are included as a separate functional item in the first financial reports of the new Noosa Council (presumably the 2014 financial year statements). De-amalgamation items were not accounted for separately following the Delatite de-amalgamation. The failure to make full disclosure relating to de-amalgamation costs makes it very difficult for affected residents and scholars alike to assess the 'true' costs of de-amalgamation or make judgements relating to the success of any de-amalgamation.

It is curious that the QTC estimate for de-amalgamation costs is only 13% less than its assessment of the total costs arising from the amalgamation of three councils into the SCRC in 2008 (QTC, 2009). It would appear that the NIA assertion that de-amalgamation is a less

Table 5. Incremental annual recurring costs.

| | <i>QTC estimate</i> | <i>SCRC estimate</i> | <i>NIA estimate</i> |
|---|---------------------|----------------------|---------------------|
| Councillor remuneration | 525,000 | 665,172 | Nil |
| Salaries and wages costs | 1,174,000 | 3,327,500 | Nil |
| ICT | | 1,571,500 | Nil |
| Insurance | | 515,425 | Nil |
| Service delivery costs | | 11,250,000 | Nil |
| Diseconomies of scale for proponent council | 932,000 | | Nil |
| <i>Total</i> | <i>2,631,000</i> | <i>17,329,597</i> | |

Source: Queensland Treasury Corporation (2012).

Table 6. The relationship between QLD local government expenditure and population before and after the programme of forced council amalgamations.

| | <i>2006/07 Model 1</i> | <i>2009/10 Model 2</i> |
|-------------------------|------------------------|------------------------|
| Population (ln) | -1.641**(0.272) | -2.101**(0.358) |
| Population squared (ln) | 0.071**(0.016) | 0.091**(0.020) |
| Density | | |
| Population growth | -1.620(2.170) | 0.610(0.760) |
| Control variables | Yes | Yes |
| N | 114 | 57 |
| R ² | 0.92 | 0.95 |

Source: Queensland Government, Department of Local Government and Planning.

Notes: Standard errors in parentheses. + p<0.10, * p<0.05, ** p<0.01.

Regression models control for hectares of agricultural land, average wage, unemployment rate, ATSI and NESB rates, proportion of the population over 65 and under 15, and the lengths (km) of urban and rural roads.

complex process than amalgamation has merit. Certainly there should be less corporate signage and staff costs than in 2008, given that only 19% of the assets (see tables 7 and 8) and 21% of staff are affected by the de-amalgamation (QTC, 2012). This seems to indicate that the QTC has over-estimated one-off costs.

While the new Noosa Council will be liable for all one-off costs, the expenses will be determined by a 'transfer committee' consisting of the SCRC chief executive officer (CEO) and the ministerially-appointed 'transfer manager' (Local Government [De-amalgamation

Table 7. Benchmarking staffing costs.

| | <i>SCRC</i> | <i>Remaining council</i> | <i>Proponent council</i> |
|---|-------------|--------------------------|--------------------------|
| Staffing recommendation | 1939 | 1532 | 407 |
| Staff recommendation | 100% | 79% | 21% |
| Population | 100% | 80.5% | 19.5% |
| Rateable properties | 100% | 80.5% | 19.5% |
| Long-term staffing estimate (based on previous de-amalgamation) | | 1561 | 378 |

Source: Queensland Treasury Corporation (2012).

Implementation] Regulation 2013, part 3, s 27(c)]. This is an extremely unusual case whereby an entity not in existence (Noosa Council did not exist until 1 January 2014) was bound to debts and obligations that it did not and could not execute. This was specifically provided for in the statutes in the Local Government [De-amalgamation Implementation] Regulation 2013. In the case of a dispute between the SCRC CEO and the transfer manager, provision was made for the minister to adjudicate.

Given the discrepancy between SCRC and NIA one-off cost estimates, and the reluctance of the SCRC to de-amalgamate, there appears to be some scope for staff and incoming elected representatives of the reconstituted Noosa Shire to be aggrieved by the final cost invoice it will face. It is extremely concerning that the residents, who will ultimately bear the one-off costs of de-amalgamation, will have had no democratically-elected representation in the cost allocation process. It would be unsurprising if this leads to a good deal of bitterness from the residents, and perhaps even legal challenge. In the case of the Delatite de-amalgamation, all one-off costs were paid out of the Delatite Shire Council funds prior to de-amalgamation.

Allocation of assets and liabilities

Table 9 sets out the original contribution of assets and liabilities from the three constituent councils to the SCRC in 2008 (Caloundra City, 2007; Noosa Shire, 2007; Maroochy Shire, 2007). Table 8 shows the QTC's (2012) recommended allocation of assets and liabilities upon de-amalgamation. As we will see, whereas the former Noosa Shire contributed 25% of net assets in the 2008 amalgamation (based on the 2007 financial statements), the QTC recommends that the new Noosa Council receive 20% of net assets (Noosa Shire, 2007; Caloundra City, 2007; Maroochy Shire, 2007). Residents of the new Noosa Shire may not find this arrangement equitable.

Unfortunately the QTC (2012) estimate provides very little detail on how its allocation was calculated. In particular, there is no explanation of what constitutes 'other assets'; this is particularly problematic given that Noosa Council received only 10% of this asset class (QTC, 2012). In this regard, the QTC (2012, p. 20) noted that it 'relied on information from the Existing Council for the allocation of the property, plant and equipment, which has been allocated on geographic location'. This seems a reasonable procedure for property and non-moveable assets. However, it would seem unfair for moveable plant and equipment. In the

Delatite Shire de-amalgamation, non-moveable assets were allocated according to the geographical location (Local Government [Delatite Shire] Review Panel, 2002). This seems an equitable arrangement which was agreed to by the councils concerned which parted on amicable grounds. However, in the Noosa case, circumstances differ:

- First, the SCRC opposed de-amalgamation (QBC, 2012).
- Second, it would appear that the proponent council will secure little of the plant and equipment (hence the very large PPE item in table 7). Given that Noosa's contribution of plant and equipment occurred only four years previously, and that SCRC will require approximately 20% less plant and equipment following de-amalgamation (based on the 19.5% of SCRC rateable properties existing in the new Noosa Council), it is hard to understand why this discrepancy in allocation might occur—unless it is somehow tied up with the net operating deficit from the three years of amalgamation of approximately A\$149.5 million (excluding asset revaluations). This is particularly troubling given that the allocation of assets and liabilities is entrusted to the SCRC CEO and transfer manager by statute.

Allocation of liabilities appears approximately in line with the initial contribution by councils in 2008. The method of starting with 2008 debts and allocating borrowings: 'in proportion as the capital expenditure in their respective areas' seems a fair proposition and it is broadly in line with the NIA recommendations (QTC, 2012, p. 20). However, it does assume that debt was incurred solely for capital expenditure and not as a result of operating deficits or the significant amalgamation costs. Moreover, the operating surpluses consistently recorded by Noosa (A\$14.7 million in 2007 financial year; A\$61.2 million in 2006 financial year; A\$51.3 million in 2005 financial year) probably indicate that had the amalgamation not occurred, Noosa Shire would have funded capital expenditure without debt (Noosa Shire, 2007; 2006). Accordingly, it appears that the NIA may have been generous in its recommendations regarding the allocation of liabilities.

Staffing arrangements

The QTC (2012) has based its financial forecasts on an estimate of 407 FTE staff for the new Noosa Council. FTE employment in SCRC has

Table 8. Proposed asset and liability allocation.

| | <i>Remaining SCRC</i> | <i>Noosa</i> | <i>Existing SCRC</i> |
|------------------------|-----------------------|--------------|----------------------|
| Cash and equivalents | 188,216 | 50,726 | 238,978 |
| PPE | 3,118,526 | 898,699 | 4,017,225 |
| Other assets | 1,144,007 | 126,566 | 1,270,573 |
| Total assets | 4,450,749 | 1,076,027 | 5,526,776 |
| Percentage assets | 81% | 19% | 100% |
| Total liabilities | 295,683 | 59,608 | 355,291 |
| Percentage liabilities | 83% | 17% | 100% |
| Net assets | 4,155,066 | 1,016,419 | 5,171,485 |
| Percentage net assets | 80% | 20% | 100% |

Source: Queensland Treasury Corporation (2012).

Table 9. Original contribution of assets and liabilities (A\$000).

| | <i>Caloundra</i> | <i>Maroochy</i> | <i>Noosa</i> | <i>Total</i> |
|---------------------------|------------------|-----------------|--------------|--------------|
| Total assets | 1,314,604 | 1,791,227 | 990,645 | 4,096,476 |
| Percentage assets | 32% | 44% | 24% | 100% |
| Current assets | 73,592 | 108,321 | 86,510 | 268,423 |
| Percentage current assets | 27.5% | 40.5% | 32% | 100% |
| Non current assets | 1,241,012 | 1,682,906 | 904,134 | 3,828,052 |
| Percentage NCA | 32% | 44% | 23.5% | 100% |
| Total liabilities | 117,273 | 179,525 | 63,270 | 360,068 |
| Percentage liabilities | 33% | 50% | 18% | 100% |
| Current liabilities | 19,337 | 47,204 | 12,547 | 79,088 |
| Non current liabilities | 97,936 | 132,321 | 50,723 | 280,980 |
| Net assets | 1,197,331 | 1,611,702 | 927,375 | 3,736,408 |
| Percentage net assets | 32% | 43% | 25% | 100% |
| Operating result | 46,037 | 92,058 | 14,710 | 152,805 |

Source: Financial Statements Caloundra City Council (2006/07); Maroochy Council (2006/07); Noosa Council (2006/07).

increased from 1851 FTE (2011) to 1929 (2012) over the last two financial years (SCRC, 2012; 2011). Table 7 takes the most recent SCRC staff estimate and allocates staff according to the proportion of rateable properties, arriving at a total of 378 FTE. This method reflects the long-term trend outcome, three years following the de-amalgamation of Delatite Shire (Benalla City, 2005; Mansfield Shire, 2005). By the Delatite benchmark, the QTC estimate thus seems to over-allocate staff to the proponent council. Given that the average employee expense ran at approximately A\$79,000 per FTE in the 2012 financial year, the over-estimate amounts to approximately A\$2.3 million p.a. (SCRC, 2012). It is curious that Local Government [De-amalgamation Implementation] Regulation 2013 states that the 'chief executive officer of the continuing local government must decide the positions that are to be transferred from the continuing local government to the related new local government on the changeover day' (Part 6, s55[1]). No statutory provision is made for the input of the transfer manager, the incumbent staff, unions or a democratic representative of the Noosa residents who will ultimately pay for

the salaries.

This seems to present a moral hazard for the management of SCRC which was opposed to de-amalgamation. It could also conceivably present an opportunity to decrease staff numbers and reduced service levels at SCRC without attracting the rancour of SCRC residents or trade unions. It thus presents a significant financial risk for the emerging Noosa Council.

Concluding remarks

The empirical analysis of the dissolution of SCRC is as a useful example for the application of the normative principles proposed by Dollery *et al.* (2012b). In particular, the SCRC case underlines the need to disseminate accurate information to residents when seeking a demonstration of community support. We have also applied considerable effort to (a) the question of the viability in the new de-amalgamated entities, and (b) the minimization of sources of conflict. Several lessons for future de-amalgamation programmes seem to suggest themselves.

In the first place, our review of the various financial forecasts for the de-amalgamation

demonstrates that there is considerable scope for conflict between the three major parties involved in the SCRC de-amalgamation: the proponent group (NIA), residual council (SCRC) and the Queensland Government (represented by the QTC and QBC). This conflict is evident in the significant variation between the three sets of forecasts and it suggests that any de-amalgamation oversight body must be alert to how vested interests might attempt to skew any dissolution programme in their favour.

This analysis of the plans and legislation relating to one-off de-amalgamation costs, the allocation of assets and liabilities and the transfer of staff suggests a second general lesson. In all instances, the absence of a democratically-elected body to represent the interests of Noosa residents indicates considerable scope for post-dissolution grievances and inequities which speak directly to the viability of the new Noosa entity. Specifically, the apportionment of assets and liabilities should—to the greatest degree possible—hinge on the pre-amalgamation distribution of these assets and liabilities. It would seem particularly important for moveable assets to be allocated according to these historical inputs. With respect to staffing, there is a real risk of the over-allocation of staff to the emerging Noosa Council. Once again, this represents a potential source of conflict and a threat to the ongoing viability of the new entity. Finally, it is critical that de-amalgamation costs are recorded as a separate functional expenditure item in order to provide for the transparency necessary to ensure the smooth operation of future de-amalgamations. In most cases these observations on the implementation of a municipal de-amalgamation will be equally applicable in other jurisdictions.

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