



**DE-AMALGAMATION  
ANALYSIS OF  
TABLELANDS  
REGIONAL COUNCIL**

**Prepared by  
Queensland Treasury  
Corporation  
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## Abbreviations

QTC.....	Queensland Treasury Corporation
ABS .....	Australian Bureau of Statistics
SLA.....	Statistical Local Area
TRC.....	Tablelands Regional Council
ICT.....	Information and Communications Technology

## 1. INTRODUCTION

The following is to provide a review of a report prepared by Queensland Treasury Corporation in November 2012 entitled “De-amalgamation Analysis of the Tablelands Regional Council”.

The review looks at the document in seven sections:

- Identification of the economic, geographic and demographic background of the wider northern and southern Tablelands area;
- Identification of trends in Council operations following amalgamation in relation to the claimed benefits of amalgamation;
- Identification of the status of the QTC report;
- Identification of wrong information in the QTC report;
- Identification of unproven assumptions in the QTC report;
- Identification of shortcomings in the analysis;
- Consequences of the foregoing for the conclusions arrived at in the QTC report.

## 2. BACKGROUND ON THE WIDER TABLELANDS AREA

Although the area of the northern Tablelands (based on the economic service centre of Mareeba) is adjacent to the southern Tablelands area (with an economic base on the service centre of Atherton), there are substantial differences between the two areas that impinge on the delivery of efficient local government services.

There are substantial differences in climate. The northern Tablelands are at lower altitude (roughly 200 to 300 metres above sea level) and in a rain shadow, drier savannah woodlands area. This leads to most agriculture being dependent on irrigation. The southern Tablelands by contrast are at higher altitude (600 to 1000 metres above sea level), with all year round rainfall. Most agriculture is non irrigated.

The two areas have a different history that leads to different demographics and attitudes.

At the end of World War II, the population in the northern Tablelands was substantially lower than that of the southern Tablelands (1947 Census 6,312 to 11,273, ie. northern Tablelands 36% of total). Construction of the Tinaroo Dam and the Mareeba Dimbulah Irrigation System led to expansion of irrigation farming and the populations today are about equally balanced – Mareeba being the larger of the two centres but with a lower surrounding population; Atherton being marginally smaller but with a larger population in the surrounding areas including in smaller service centres like Tolga, Malanda, Millaa Millaa and Ravenshoe, giving it a marginally larger overall population (northern Tablelands 20,826 (46%), southern Tablelands 24,417 (54%).

Demographically however, the expansion of irrigation agriculture in the 1950s and 1960s resulted in substantial flow in of migrants of non British Isles background, especially from Italy and the Balkans area. Mareeba also has a higher indigenous population.

Differences in attitudes include those stemming from the local environment – Mareeba tending to be more pro-development and the southern Tablelands naturally more focussed on environmental considerations.

In terms of service areas, Mareeba tends to look north to the Cooktown district and the Peninsula and west to the lower Mitchell area; Atherton to the south and west to the Gulf area.

Proximity of the two centres however, and the relatively equal population balance between the two centres and areas, leads to a long history of rivalry for location of activities that will aim to service a wider market.

The transport infrastructure makes Mareeba closer to the major seaport, airport and rail head of the regional centre of Cairns but Atherton closer to the marginally larger population.

While there was a strong case for amalgamation of the previous three small shires in the southern Tablelands area (and they were moving in that direction), the inclusion of the former Mareeba Shire was strongly opposed at the time and has brought with it substantial strains and difficulties for an amalgamated Council.

Part of the difficulties are from the sheer size in terms of area of the new local authority. This is mainly due to the size of the former Mareeba Shire but also because of the relatively large area covered by the former Herberton Shire. The area covered by the amalgamated council is equivalent in area to the State of Tasmania. Servicing this large area is further complicated by large variations over the area in population density and economic activity.

### 3. IDENTIFICATION OF TRENDS FOLLOWING AMALGAMATION

Discussions by Cummings Economics staff over the intervening years since amalgamation of Tableland councils, with TRC councillors and business residents, have indicated that a very large amount of councillors' and key staff time has been spent in seeking to bring together into one organisation the disparate accounting systems, town plans, rating systems and corporate structures and cultures of the four councils.

Despite a willingness to make amalgamation work, special problems appear to have occurred in balancing the location of staff and skills between Mareeba and Atherton.

Examination of the QTC report immediately indicates that a problem has occurred with staff levels. Rather than amalgamation resulting in economies of scale and a diminution of total local government staff levels, the QTC report Table 4, indicates that since amalgamation, staff numbers have increased from 493 to 578, an increase of 85 or 17% over four years, ie. 4.1% pa. This compares with growth in rateable properties of 4% or 0.97% pa. and population growth of 0.5% pa. (three years 2008 to 2011). (See note on wrong figures, Section 5.)

The indications are that rather than local government services costing less following amalgamation, they have increased by about 12% in real terms following amalgamation, and that in terms of efficiency improvements, amalgamation has been a failure.

## 4. IDENTIFICATION OF THE STATUS OF THE QTC REPORT

In assessing the degree to which the QTC report should be relied upon, attention needs to be paid to the long disclaimer given in the QTC report on page 30.

The report was prepared in line with a “Scope of Works”, and “exclusions” set out in an “Engagement Letter/s”. This “Engagement Letter/s” are not included with the report.

The report says it is to be provided to third parties/public on the basis that, “The recipients will be made aware of and will be subject to any assumptions, qualifications, exclusions or limitations of liability contained in the Engagement Letters.” However these letters are not included in the report.

The QTC disclaimer indicates the QTC has not independently verified the information supplied to it and does not represent that it is accurate or complete.

*“The Department and the Commission acknowledge that QTC is not a legal, tax or accounting advisor and that independent expert advice from practitioners in the relevant disciplines should be obtained on those matters before acting upon the information contained in this Report.”*

From the foregoing, it can be concluded that the results and conclusions reached in the report are being represented in the public arena by some third parties without due regard to the qualifications and disclaimers contained in the report.

## 5. IDENTIFICATION OF ERRORS IN FIGURES

### Population

Figures used in the report (Table 4) for population are not in accordance with latest published by the Australian Bureau of Statistics. Their inclusion shows a serious lack of awareness of population data classifications and figures available.

In short, the Australian Bureau of Statistics (with advice from the Queensland Government) made serious mistakes in their inter-censal estimates of residential population from 2006 through to 2011 throughout many areas of Queensland.

After the 2011 Census data became available, new figures for estimated residential population were published on 31<sup>st</sup> July 2012. Figures used by QTC are those published before the revision.

The level of overestimation by the ABS with advice from the State Government was serious and embarrassing. As for most areas of the north, the estimate for the Tablelands area are over-estimated by 117%. An initially published increase of 3,775 over 2006 to 2011 compares with the post-censal estimate of 1,736.

Failure to be aware of this major revision raises doubts about the thoroughness of the QTC analysis.



## 6. IDENTIFICATION OF UNPROVEN ASSUMPTIONS IN THE QTC REPORT

### 6.1 Forward Population Projections

Forward population growth estimates used by QTC (see Table, QTC report ,Appendix 1) are questionable. They are for a five-year growth rate of 0.8% pa. in the proponent council area (Mareeba SLA) and 1.4% pa. for the remaining council area (Atherton, Eacham and Herberton SLA's) with an overall average of 1.1% pa.

It is not clear where they have come from but presumably they have come from the State Government's population forecasting and information unit.

For anyone familiar with the track record of these forecasts in the north of Queensland, they can be classed as proving notoriously wrong.

These forward projections compare with historical population trend figures as follows.

**Table: Estimated Residential Population**

	<u>Mareeba SLA</u>	<u>Southern Tablelands SLA's</u>	<u>Total</u>
<b>2001</b>	18,479	22,322	40,801
<b>2006</b>	19,435	24,072	43,507
<b>(av annual growth 2001-2006)</b>	(+1.0% pa)	(+1.5% pa)	(+1.3% pa)
<b>2011</b>	20,826	24,417	45,243
<b>(av annual growth 2006-2011)</b>	(+1.4% pa)	(+0.3% pa)	(+0.8% pa)
<b>(av annual growth 2001-2011)</b>	(+1.2% pa)	(+0.9% pa)	(+1.0% pa)

Source: ABS Cat 3218.0.

The obvious question against this background is why the future projections used by QTC for the southern Tablelands is 75% higher than for the Mareeba area when past evidence points the other way.

The following figures indicate that previous State Government projections of balance between the Mareeba SLA and the southern Tableland SLA's proved wrong.

The following table compares medium population projections published by Queensland Government Department of Local Government and Planning in 2001 with actual.

**Table: Medium Population Projections**

	<u>Projections</u>			<u>Actual</u>			<u>Av Growth 2001-2011</u>	
	<u>2001</u>	<u>2006</u>	<u>2011</u>	<u>2001</u>	<u>2006</u>	<u>2011</u>	<u>Projection</u>	<u>Actual</u>
<b>Atherton</b>	10808	11583	12394	10666	11558	12097		
<b>Eacham</b>	6468	6615	6792	6318	6771	6623		
<b>Herberton</b>	5703	6157	6610	5338	5743	5697		
<b>Sub total</b>	<b>22979</b>	<b>24355</b>	<b>25796</b>	<b>22322</b>	<b>24072</b>	<b>24417</b>	<b>+1.2% pa</b>	<b>+0.9% pa</b>
<b>Mareeba</b>	19057	19954	20759	18479	19435	20826	+0.9% pa	+1.2% pa
<b>Total</b>	<b>42036</b>	<b>44309</b>	<b>46555</b>	<b>40801</b>	<b>43507</b>	<b>45243</b>	<b>+1.0% pa</b>	<b>+1.0% pa</b>

Source: Projections from Qld Government Department of Local Government & Planning, "Population Trends & Prospects for Queensland", 2001 edition.

While the projected growth rate used for the total area of 1% pa. has proved accurate, the projected rate for Mareeba has proved to be low and that for the southern Tablelands high.

The evidence points to it being more realistic to project population growth forward for Mareeba at the higher rate, and the southern Tablelands at the lower rate.

While both areas suffered loss of employment in mining in 2012 due to the cessation of Kagara operations at Mt Garnet and Chillagoe, there are good indications that a resurgence will take place over the next five years with the Red Dome Pit Extension development at Chillagoe and tungsten operations at Watershed, Wolfram Camp and Mt Carbine (Mareeba area) and tin at Mt Garnet area (southern Tablelands area). A major expansion of sugar production is taking place in the Mareeba Dimbulah Irrigation Area and a general recovery is evident in the Far North Queensland region at present with lifts taking place in tourism, private dwelling approvals and numbers employed.

## 6.2 Council Workforce

The QTC report projects division of staff between a new Mareeba Council and the remaining Tablelands Regional Council at:

Total.....	586.....	(100%)
Mareeba .....	270.....	(46%)
TRC .....	315.....	(54%)

with no increase in coming years.

This represents an overall increase of eight staff on the 578 recorded as existing in 2012, ie. an increase of only 1.4%.

For Mareeba, 270 represents an increase on the pre amalgamation level of 204 of 66 or 32%. For the remaining TRC area, a modelled staff of 315 represents an increase on pre amalgamation level of 289 of 26 or 9%.

These figures must be regarded as suspect. No detailed explanation is given in the report for the blow out of staff needed to operate Mareeba Council compared with 2008.

It is then puzzling as to why QTC has projected forward no increase in staff each year at all over the next five years when projected population growth would indicate a need for some increases over time.

The view we have developed from examining the information available in the QTC report, is that amalgamation resulted in major inefficiencies with a 'blow out' in staff and that the QTC report recognises this and provides for a marginal increase in staff as a result of de-amalgamation and a net reduction in staff to population over the next five years as a result of de-amalgamation.

The net result of consequence for the QTC calculations are that the staff level is unfairly weighted onto Mareeba in the initial years of de-amalgamation compared to what was achieved previously under an efficient de-amalgamated administration.

### 6.3 One-Off Costs of De-amalgamation

We are not in a position to accurately assess the one-off costs of de-amalgamation. However comparison of the difference between the QTC estimate of \$6.0m and the proponent Council estimate of \$3.2m (ie. \$2.8m), is primarily composed of differences in computer related costs of \$2.1m and governance, planning and implementation of \$1.2m.

It should be noted that the major addition of ICT costs has been based on a report by outside consultants KPMG that QTC indicate has not been cross checked. There could be a real question as to whether built into the cost, is the development of a system that includes features that bring the system up to levels beyond what could be regarded as reasonably cost efficient.

### 6.4 Incremental Annual Recurring Costs

The QTC report indicates an additional recurring annual cost of \$2.2m, some \$1.7m pa. above the estimate of the proponent Council estimate.

This is composed of:

- an estimate of \$1.1m in additional wages and salary costs,
- almost \$0.5m in estimated diseconomies of scale, and
- some minor additional estimates for councillor remuneration and insurance.

The foregoing Section 6.2 covers the question of staff. Against the background of the increase in staff levels following amalgamation, it is doubtful that additional staff will be needed and that de-amalgamation seems likely to lead to an actual reduction in staff as efficiencies are achieved.

There is no evidence that in calculating diseconomies of scale, any attempt has been made at identification of those items where costs are disproportionately high and that closer council control and supervision following de-amalgamation are likely to result in reduced costs to council.

There thus seems to be an unproven assumption in the QTC analysis that there are only economies of scale in council operations and no diseconomies of scale through amalgamation.

One has only to consider the combined area covered by the amalgamated council that leads to local government services having to be provided to an area the size of Tasmania (which has 29 local government areas covering only ten times the population), to realise that it is wrong to assume that there are only economies of scale involved and no diseconomies in amalgamation.

## 6.5 Grants & Subsidies

There is an assumption in the QTC report that the de-amalgamated Mareeba local government area will receive less grants and subsidies per capita than the remaining TRC local government area.

Comparison of data in Tables 15 and 19 in the QTC report indicates a ratio of receipt of grants and subsidies of Mareeba \$6.655m, remaining TRC \$9.386m, total \$16.071m, ie. Mareeba 41.6%, remaining TRC 58.4%, when population split at present is 46% Mareeba.

The reason for this assumption does not seem to be spelt out.

## 6.6 Gross Capital Expenditure

The QTC report Tables 14 and 19 indicate capital expenditure for de-amalgamated Mareeba local government area of \$111m over the five years analysed, compared with \$60m for the remaining TRC local government area. It is noted that the upgrading of the Mareeba sewerage system is estimated to cost of \$28m and this would in part explain the difference.

On a population ratio basis, it could be expected that the equivalent capital expenditure program in Mareeba excluding the sewerage upgrade would be \$55m, and, plus the sewerage upgrade \$83m. Why there is the extra \$28m on top to take it to \$111m does not seem to be explained when the report identified that there was no one-off cost of de-amalgamation for property, plant and equipment.

## 7. IDENTIFICATION OF SHORTCOMING IN ANALYSIS

Even if it is accepted that the real one-off cost of de-amalgamation was as portrayed at \$6m in the QTC analysis, it is unlikely that a local government would react by raising rates by an equivalent amount in Year 1. It is more likely that the Council and community would regard it as a capital cost to be recouped from benefits over a period of time.

A sum of \$6m over 10 years at a high interest rate of 5% real (7 – 8% nominal, assuming an inflation rate of between 2 and 3%) would cost per rateable property (9408) only \$63 per annum.

Even if it is accepted that the additional recurrent cost for Mareeba is as estimated in the QTC report at \$2.2m, spread over 9408 properties, works out at \$234 per rateable property.

We thus estimate that, based on the QTC assumptions about additional one-off costs and incremental recurring costs, the cost to Mareeba ratepayers will be:

### ***Additional Costs Based on QTC Assumptions***

One-off cost amortisation per annum.....	\$63
Additional recurring costs per annum .....	\$234
Total.....	\$297

This is a far cry from the claims in the QTC report that ratepayers are facing an increase of \$882 in the first year and \$455, \$679, \$761 and \$795 in the following years.

Part of the reason for the difference is that the QTC report (see Table 5) projects that the amalgamated council, following net rates and utility charge per rateable property increases in FY 2011 of 5.4%, in FY 2012 of 3.4% and in FY 2013 of 4.2%, will keep rate increases below projected inflation at 2.9% pa. over the next four years, but the de-amalgamated council will have a growth in net rates and utility charges per rateable property of 3.8% pa. for the Mareeba Council and 4.4% pa. for the remaining TRC.

Examination of the second note to Table 5, says that existing TRC staff numbers grew by 1.1% pa. 2010 – 2012 and says that no growth has been scheduled in the forecast. This hides the fact that growth FY 2013 on FY 2012 is recorded from 543 to 576 (ie. 6.4%), making average growth FY 2010 to FY 2013 2.9% pa., after growth 3.8% pa., over the two years 2008 to 2010.

## 8. CONCLUSIONS

There are real differences in geography, economies and demographics between the northern Tablelands area based on Mareeba and the southern Tablelands area based on Atherton, with consequences for efficient decision making and delivery of local government services. This is compounded by the difficulties in one council efficiently delivering local government services over an area the size of Tasmania which has 29 councils. It is further compounded by the relatively equal size of the two areas in population and proximity in distance leading to intense competition for the attraction of facilities aimed at servicing the wider area.

On the basis of the figures in the QTC report, amalgamation has been a disaster for efficiency in the delivery of local government services to the area. Over the period 2008 to FY 2013, staff alone have increased from 493 to 578 (ie. by 17%), against a background of claims that there would be major efficiencies to be gained from amalgamation.

Anyone referring to the QTC report should refer to the disclaimers about the extent of research and verification. It is clear that undue reliance is being put on the findings by some in the public. A mistake in population figures used illustrates a degree of lack of care. Use of comparative projected growth rates that put the northern Tablelands behind the southern Tablelands, despite widespread evidence to the contrary, also illustrates a lack of familiarity with the realities of the area.

The basic problem however with the analysis is that it is based on a view by the QTC that, despite the evidence before it of the blow out in staff and costs that have occurred since amalgamation, there are only diseconomies of scale in de-amalgamation but no potential economies and efficiencies.

The Mareeba Council was successfully operating with a staff of 204 before amalgamation. The QTC model has a new Mareeba Council commencing operations with a staff of 270, ie. 32% more staff than in 2008, an increase equivalent to almost 6% pa., when population growth over the period 2008 to 2013 has been about 1% pa.