

**REVIEW OF  
THE POSSIBLE  
RESTRUCTURING  
OF THE  
DELATITE  
SHIRE**



**THE REPORT OF THE  
LOCAL GOVERNMENT  
(DELATITE SHIRE COUNCIL)  
REVIEW PANEL  
JULY 2002**

**REVIEW OF THE POSSIBLE  
RESTRUCTURING OF  
DELATITE SHIRE**

**The Report of the Local Government (Delatite Shire  
Council) Review Panel**

**July 2002**

12 July 2002

The Hon Bob Cameron MP  
Minister for Local Government  
Level 21, 80 Collins Street  
MELBOURNE VIC 3000

Dear Minister

**Local Government (Delatite Shire Council) Review Panel**

On 12 March 2002, you appointed us as the Panel to conduct “a review of the feasibility and viability of the Delatite Shire Council becoming two separate municipalities, one being based in Benalla and one being based in Mansfield.” We are pleased to provide our report for your consideration. We were not asked to provide a recommendation, but we believe the contents of the report will provide guidance in the event that a separation of the Shire does proceed.

We met with the key community organisations and stakeholders to ascertain their views and the issues they believed should be considered. However, we did not undertake an extensive community consultation as this had already been done by the Delatite Shire Council in 2001 and we felt there was no need to repeat this process.

We therefore concentrated on the financial analysis of the impact of separation. A very detailed examination of the likely incomes and expenditures of the proposed new shires was undertaken. This analysis, which was based on Delatite’s 2001/02 budget, showed that the cost of separation would be negligible (0.1%) for the proposed municipality in the north of Delatite, but would cost ratepayers in the south about 16.8%.

Based on this analysis we believe that the proposed new shire based around Benalla is viable with a rate increase of 12% as proposed by the Delatite Shire Council in its recommendations to you in December last year. In fact, this level of rate increase will allow the new municipality to maintain existing service levels and to increase expenditures on capital works.

The analysis reveals that the proposed new shire based around Mansfield is just viable with a rate increase of 16.8%, although this rate increase does not allow for any additional capital expenditure.

While the analysis showed that the two proposed shires were viable, we wish to point out that the new southern shire (Mansfield) will be very small, able to provide very basic services only and will have difficulty in providing for additional capital works, despite a significant increase in rates.

We also wish to emphasise that our analysis was based on 2001/2002 dollars. It does not take into account enterprise agreement wage increases or normal inflation. Based on advice from the Delatite Shire Council, we believe that these factors may well add another 7 to 8% to the cost of operating the new municipalities in 2002/03. Further, the Victoria Grants Commission has advised that additional funds likely to be available to both proposed municipalities will not come into effect until 2003/04. This will have a further budgetary impact should separation proceed during 2002/03.

The estimated budgets for the the proposed new shires, the split of assets and liabilities and the estimation of corporate overheads contained in this report have the broad agreement of the current councillors and senior management team at Delatite Shire.

We wish to take this opportunity to thank Ms Vicki Davidson for her valuable assistance and input and dedication to the task. We would also like to thank, in particular, Ms Kaylene Conrick and Mr. Peter Franks at Delatite Shire Council who provided the Panel with extensive information during the course of the review.

Yours sincerely

**Roger Male**  
Chairperson

**Julian Stock**  
Member

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## EXECUTIVE SUMMARY

1. On 12 March 2002, the Minister for Local Government, the Hon. Bob Cameron MP (“the Minister”) appointed a Panel in accordance with the provisions of *section 220A* of the *Local Government Act 1989* to undertake a review of the possible restructuring of the Delatite Shire.
2. The primary purpose of the review was to examine the feasibility and viability of the Delatite Shire becoming two separate municipalities, one being based in Benalla and one being based in Mansfield. The municipalities would be separated by a common boundary that would approximate the original boundary of the former Shires of Benalla and Mansfield.
3. In establishing this Panel, the Minister requested the Panel to examine:
  - the cost of the proposed shires
  - the staffing structures required
  - the distribution of assets and liabilities
  - the soundness of the proposal for the two proposed shires to share resources
  - the methodology for the calculation of resource-sharing charges between the proposed shires
  - the impact on service delivery of the proposed separation
  - the capacity of the proposed shires to maintain and renew infrastructure
4. In general terms, the Panel’s process consisted of the following activities:
  - Consultation with key stakeholders and review of earlier consultation activities (O’Brien report)
  - Review of the Framework for de-amalgamation prepared by Delatite Shire Council (the Council)
  - Analysis of the staffing requirements of the proposed municipalities (New Benalla and New Mansfield)
  - Identification of the cost of running the new municipalities and preparation of proposed budgets
  - Analysis of the likely transition costs involved in moving to the proposed arrangements
  - Identification of likely changes in Victoria Grants Commission (VGC) and National Competition funding
  - Review of the service levels to be offered
  - Identification of the rate rises required to establish and operate New Benalla and New Mansfield
  - Review of the “Resource Sharing Agreement” proposed by the Council
  - Consideration of the impact of de-amalgamation on the community’s infrastructure renewal requirements
  - Detailed analysis of the assets and liabilities of Delatite Shire and the development of a methodology to divide the assets and liabilities that is fair to both new municipalities
  - Identification and consideration of other issues that arose during the course of the Panel’s activities

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5. Members of the Panel wished to establish an open, fair and comprehensive process. It was important to the Panel that all interested parties had the opportunity to have their views considered. The Panel was, however, cognizant that the community had already been consulted extensively in the preparation of the O'Brien report and did not consider it appropriate to unnecessarily duplicate the process that had already taken place.
  6. The Panel sought meetings with the key community organisations within the shire and with individuals and external organisations considered likely to have a view on the possible split or to have information that may assist the Panel in its deliberations.
  7. The Delatite Shire can be separated into two new shires at a minimum cost of 0.1% rate increase in New Benalla and 16.8% in New Mansfield. In considering the likely cost of the separation, the Panel considered a range of possible income and expense items which may result in a variation to these rate increases. The Panel treated these as contingencies and takes the view that the cost of separation will fall within the range 0.1% - 1.3% for New Benalla and 16.8% - 19.5% for New Mansfield. These rate increases are based on 2001/02 figures and are solely for the cost of separation. They do not include any allowance for wage increases and normal inflation, which the Shire estimates will be up to 8.3% for 2002/03. Additionally, the Victoria Grants Commission has advised that the additional funds likely to be available to both municipalities in the future will not come into effect until 2003/04. A further rate increase may be required to compensate for this delay in additional funding.
  8. Recommended staffing structures were developed for both proposed shires in conjunction with senior management at Delatite. These were based on the original Framework submitted by the Council but amended to add some additional positions and further amended when the Council advised it wished to reduce the amount of resource sharing originally proposed. The final proposed staffing structures have been agreed with senior management and allow for 91.0 EFTs in New Benalla and 64.6 in New Mansfield. The Panel is of the view that this level of staffing will allow the maintenance of current service levels but will not provide for any improved service levels.

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9. The Panel also reviewed the salary levels of all positions as it is important that both proposed shires have the capacity to attract capable staff. The Panel took the view that a number of the proposed salaries, particularly in New Mansfield, were too low. The Panel recommended a range of increases in these salary levels and these have been incorporated in the final staffing models.
  10. The Australian Services Union was fully consulted during the course of the review. No staff member will be disadvantaged by the proposed separation.
  11. The Panel devoted much attention to the split of assets and liabilities as this will have a major impact on the operating capacity of the proposed shires. The Panel has developed a detailed model for the split of assets and liabilities and recommends this be implemented immediately prior to separation.
  12. The Council's proposal to share resources was scrutinised during the review. Originally, the Council had proposed resource sharing in finance, engineering design and supervision, environmental health, forest services and community services. This proposal was amended by the Council several times during the course of the review and the final proposal was to share resources only in community services. As community services already operate on an integrated management model with staff split geographically in Benalla and Mansfield, the resource sharing proposal would effectively have minimal impact on this area of operations. There are advantages in continued joint operation that arise from maintenance of scale in staffing and management and the Panel supports this approach.
  13. The Panel reviewed the documentation prepared to support resource sharing. This comprises a Resource Sharing Agreement setting out the legal framework for the arrangement and a Service Level Agreement detailing the scope of services to be provided and the performance standards to be met. These documents are still in draft form and require some further development to meet the needs of both proposed shires. Detailed recommendations for amendment are contained within the body of this report.
  14. As a consequence of the resource sharing proposal, it is appropriate that New Mansfield pay for management and administrative costs incurred by New Benalla in providing these services on New Mansfield's behalf. The Panel considered a number of different ways of calculating a charge for these corporate overheads that was fair to both parties. It also enquired about the charge operating in a number of other similar arrangements. The Panel believes that a 15% overhead charge on the direct cost of providing the resource shared services is appropriate.



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15. The Panel gave significant attention to the impact of separation on the services provided to the community. As many services are already provided on a split geographical model, the Panel took the view that the impact on direct service delivery would be minimal. The major impact of the separation would be in corporate support services and at management level. The Panel addressed these matters in the alterations it made to staffing and now takes the view that service levels can be maintained in the new shires. Having said that, it should be noted that service levels are already at a very basic level and no allowance has been made for any service improvements. Staff expressed some concern about this fact as they took the view that the community would be expecting service improvements as a consequence of separation and significant rate increases. The Panel considers it important that the proposed new councils communicate to their communities the level of service that will be available.
16. The Shire does not currently have an asset management strategy and therefore it was not possible for the Panel to determine the extent of the gap in the funding of asset renewal and replacement. Currently, Delatite spends well below the State average and well below that spent by similar shires on capital works. It may therefore be assumed that Delatite is not currently keeping pace with the renewal of its infrastructure. Under the proposed rate increases, New Benalla will have a significantly increased surplus available for capital expenditure. If it preserves these funds for capital over several years, the community will benefit significantly from improvements to its infrastructure. The proposed rate increases do not provide for any additional capital expenditure in New Mansfield. Given that Delatite is currently under spending on capital, the community of New Mansfield will need to consider further rate increases if it wishes to maintain and renew its asset base.
17. The Panel took account of a range of other matters which are commented on within the report. These include:
- Sociological, demographic, topographic, economic and employment factors
  - Sustainable economic development
  - Administrative, financial and rating impacts
18. Of significance are the demographics of the area. The resident population is smaller than reported in a number of other documents. This has an impact on the way the VGC calculates its allocation of funds and hence has an impact on the incomes of the proposed new shires. Demography is also important as the population of New Benalla and New Mansfield is characterised by a higher than average proportion of elderly people and a higher than average proportion of low income people. This suggests the community has limited capacity to carry significant rate increases. Rates are also of concern to farmers as they constitute a significant item in the farm budget.

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19. The Panel obtained legal advice as to the means by which the proposed shires might be created. The Panel is of the view that the cleanest and least controversial method is for Delatite Shire to be abolished and for two new municipalities to be created by an Order in Council under s.220 of the *Local Government Act 1989*.
  20. Prior to the submission of this report, the Panel met with the Delatite councillors to discuss the main findings of this review. The Panel is pleased that the estimated budgets for the the proposed new shires, the split of assets and liabilities and the estimation of corporate overheads contained in this report have the broad agreement of the councillors and senior management team at Delatite Shire.
  21. In the event of separation, this report will provide guidance during any period of administration and during the period immediately following the election of new councils.

## **SECTION ONE: INTRODUCTION**

1. On 12 March 2002, the Minister for Local Government, the Hon. Bob Cameron MP (“the Minister”) appointed a Panel in accordance with the provisions of *section 220A* of the *Local Government Act 1989* to undertake a review of the possible restructuring of the Delatite Shire.
2. The primary purpose of the review was to examine the feasibility and viability of the Delatite Shire becoming two separate municipalities, one being based in Benalla and one being based in Mansfield. The municipalities would be separated by a common boundary that would approximate the original boundary of the former Shires of Benalla and Mansfield.
3. The terms of reference for the Local Government (Delatite Shire Council) Review Panel (“the Panel”) are contained in Attachment 1.
4. The Panel was appointed by the Minister to provide an independent assessment of the proposal to separate the Delatite Shire into two municipalities. The Panel considered the issues solely on the basis of the impact on the residents and ratepayers of the Delatite Shire and did not take into account any consequential issues that might arise in other municipalities.
5. The members of the Panel have no past or current associations with the Delatite Shire that might create a conflict of interest.

## **SECTION TWO: BACKGROUND**

6. In January 2000, about 700 people attended a public meeting in Mansfield at which the Mansfield District Residents and Ratepayers Association was formed. The Association endorsed four candidates for the council election, all of whom were successful at the poll in March 2000. These 4 candidates stood on a platform promoting the separation of the shire into two new entities, referred to in this report as “New Benalla” and “New Mansfield”.
7. The Delatite Shire Council (the Council) subsequently resolved to determine the views of residents and ratepayers regarding a possible split of the shire and to assess the economic impact of such a separation. Miriam O’Brien Consulting was appointed in December 2000 to carry out this project. Specifically, the purpose of the project was to:  
“...determine the attitudes and perceptions of the community of Delatite Shire to the possibility of the separation of the Delatite Shire into two new shires based around the population centres of Mansfield and Benalla. To enable this review to be done with adequate information being provided to the community a related objective is to develop a broad but materially accurate economic model.”<sup>1</sup>

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<sup>1</sup> Delatite Shire Council, *Terms of Reference and Brief for Community Review Process* August 2000

8. This Community Review (referred to subsequently as the “O’Brien report”) was conducted between January and June 2001. It concluded:

“On balance, the majority of residents and ratepayers want the shire divided and although this would be at a cost, analysis of the situation using criteria identified by Delatite Shire and the Minister for Local Government suggests it is a feasible and desirable option for Delatite Shire.”<sup>2</sup>
9. The Council then forwarded the O’Brien report to the Minister for Local Government for his consideration.
10. On 20 August 2001, the Minister wrote to Delatite Shire Council indicating support for Council’s aspiration to become two separate municipalities “provided there is broad community support, community affordability and sustainable futures for the new municipalities.”<sup>3</sup> The Minister requested that the Council develop a full transition plan including:
  - All costs associated with the transition and ongoing costs
  - New organisational structures, including a plan to ensure that no employee is disadvantaged by the split
  - Service delivery models including service levels and standards for each municipality
  - Proposed rate rises for 2002 and 2003 – both if there were no split and if the split took place
  - A financial plan for dealing with the infrastructure gap for each of the proposed entities.
11. The Council proceeded to prepare the documentation requested by the Minister to support the submission for de-amalgamation. This documentation known as the “Proposed De-amalgamation of Delatite Shire Council Preferred Framework” (“the Framework”) <sup>4</sup> was forwarded to the Minister on 4 December 2001.
12. On 24 December 2001, the Minister requested both members of this Panel to undertake a preliminary analysis of the Framework to assist the Minister in determining whether a formal Panel should be established.
13. On 30 January 2002, both members of this Panel submitted a preliminary assessment of the Framework to the Local Government Division. The Panel recommended a thorough review by a statutory Local Government Panel “to advise whether or not it is in the Delatite community’s interest to de-amalgamate.”<sup>5</sup>

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<sup>2</sup> Miriam O’Brien Consulting, *Report of Community Review Community attitudes to Possible Restructuring of Delatite Shire*. Executive summary p.1.

<sup>3</sup> Hon. Bob Cameron MP, *correspondence to Mayor, Shire of Delatite* 20 August 2001 p.1

<sup>4</sup> Delatite Shire Council, *Proposed De-amalgamation of Delatite Shire Council Preferred Framework* December 2001

<sup>5</sup> Male, R & Stock, J. *Correspondence to Local Government Division* 30 Jan. 2002 p.3

14. The Minister determined to proceed with the establishment of a Local Government Panel and appointed Messrs Male and Stock to that Panel in March 2002.
15. This document is the report of the Panel to the Minister.
16. Having resolved to support a split of the Delatite Shire, the Council then established two community councils, one for the northern end of the shire and one for the southern end. These are formal sub-committees of Council, established under Section 86 of the *Local Government Act 1989*. They have delegated decision-making responsibilities. The Council also resolved that funds would be spent where they were raised (north or south) and that there would be no cross subsidies from one end of the shire to the other.

### **SECTION THREE: DELATITE SHIRE**

17. The Benalla and Mansfield regions have seen only small changes in their municipal structures over the last hundred years and have long histories as distinct municipal entities. The original Shire of Benalla was created in 1869. Over the ensuing years, areas were excised to create the Shires of Violet Town and Euroa and the City of Benalla. The original Shire of Mansfield was created in 1866 and expanded to include Wood's Point in 1888.<sup>6</sup>
18. The Delatite Shire Council was formed on 18 November 1994 as a result of the amalgamation of the City of Benalla, the Shire of Mansfield, most of the Shire of Benalla and a small portion of the Shire of Violet Town.<sup>7</sup> As in many other municipalities across the State, there were a number of residents who opposed amalgamation in 1994.
19. The Shire is about 6,246 square kilometres in size and its southern border is 180 kilometres from Melbourne.<sup>8</sup> The topography “ranges from riverine plains with scattered low hills to mountainous country with a number of high tableland plateaux.”<sup>9</sup> Key geographical features include parts of Lake Eildon, Lake Mokoan and the valleys of the Howqua, Big and Goulburn Rivers. Major transport routes include the Hume Freeway, Midland and Maroondah Highways, and the North Eastern Railway.<sup>10</sup>

<sup>6</sup> Local Government Board, *North East Victoria Review Interim Report* September 1994

<sup>7</sup> Victorian Government Gazette No. S87

<sup>8</sup> Department of Infrastructure, *Regional Victoria in Fact* 1998 p.60

<sup>9</sup> [www.delatite.vic.gov.au](http://www.delatite.vic.gov.au)

<sup>10</sup> Delatite means Business, Delatite Shire, undated

20. The Shire has two areas adjacent to it which are not part of any municipal district. These are Mount Buller and Mount Stirling, which are managed by the Mt Buller Resort Management Board and the Mt. Stirling Alpine Resort Management Board respectively. These areas are not administered by Delatite Shire, council services are not provided within these areas and property owners do not pay rates and charges to the Shire. They are two of six resort areas in the State that are not included within any municipal district. In the event of separation of Delatite Shire, the new boundaries will need to be drawn such that these areas are excluded.
21. Before detailing demographic information for the shire, a note on Australian Bureau of Statistics (ABS) methodology is necessary. The ABS collects data on both enumerated population and resident population. *Enumerated* population is the number of people, less overseas visitors, actually in the area on census night. *Resident* population counts the number of people normally resident in the area. Given that the census is taken on a week night in August (peak snow season), large numbers of visitors to Mount Buller and Mansfield are counted in the enumerated population figures. The Panel is of the view that the correct figure to use for local government statistical purposes is the resident population figure. This is the figure used by the Victoria Grants Commission (VGC) and the State Government for planning and administrative purposes. Both the O'Brien report and the Delatite Framework document appear to have used the enumerated population figure, resulting in a significant overstatement of the size of Delatite's population and, in particular, an overstatement of the New Mansfield permanent resident population.
22. Another statistical issue also warrants mention. Both the enumerated population and resident population figures for Delatite include people within the boundaries of the Mount Buller resort board area, although, as previously stated, this area is not actually part of the shire. This is because the ABS does not separate out the resort board areas in its figures. The census data shows 517 people resident at Mount Buller and these have been counted in the ABS Delatite figures, resulting in another overstatement in all previous reports of the population figures for Delatite and hence New Mansfield also.<sup>11</sup> However, as ABS resident population figures are used for government planning purposes, they have been used throughout this report and not adjusted down to allow for the 517 people who indicated they were residents of Mount Buller. The Panel believes this anomaly had no significant impact on its overall conclusions.

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<sup>11</sup> Wight, Chris Senior Research Officer Department of Infrastructure *Personal communication* 2 May 2002

23. At the time that the Panel commenced its review, the population figures available were from the 1996 census, amended by the ABS to estimate population data as at 30 June 2001. These figures were relied upon throughout this report. Data from the 2001 census was however released on 17 June 2002 and the Panel checked this new census data for significant variations. As it did not vary materially from the ABS estimated 2001 figures, the Panel was satisfied that the figures used were appropriate.
24. The resident population of the Delatite Shire as at 30 June 2001 was estimated by the ABS to be 20,162.<sup>12</sup> Like the rest of Victoria, the population is ageing although this will occur earlier than in metropolitan areas and the impact will be more extreme. In 20 years time, the over 50s will comprise more than 50% of the Delatite population whereas now they comprise only 34%.<sup>13</sup>
25. The distribution of household incomes shows that Delatite household incomes are lower than the average for regional Victoria.<sup>14</sup>
26. The combination of an ageing population and low household incomes has implications for the shire (and for the proposed new shires) in the longer term. First, it may be expected that an ageing population may place a heavier demand on Home and Community Care services and, secondly, it may be anticipated that older, lower income residents will be resistant to future rate increases.
27. The shire has produced an Economic Development Strategy in order to provide a clear policy and planning environment for business and to facilitate investment in the shire. This strategy reports that the economy of the shire is based on tourism, manufacturing and agriculture. Estimated GDP is \$750m. Enterprises in the shire employ in excess of 9,600 people.<sup>15</sup>
28. The shire is ranked as a “large shire” for comparative purposes by the Local Government Division. Shires with similar population numbers are Swan Hill, Colac Otway and Surf Coast. The shire had a budgeted income of \$18.3m in 2001-02. On the basis of operating expenditure (i.e. excluding capital), Delatite is ranked 58<sup>th</sup> in size out of 78 local government authorities.

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<sup>12</sup> ABS annual population statistics provided by DOI

<sup>13</sup> Department of Infrastructure, *Victoria in Future 2000*

<sup>14</sup> Department of Infrastructure, op.cit. p.60

<sup>15</sup> Delatite Shire Council, *Growing Delatite Strategy* undated

## SECTION FOUR: RATES IN DELATITE

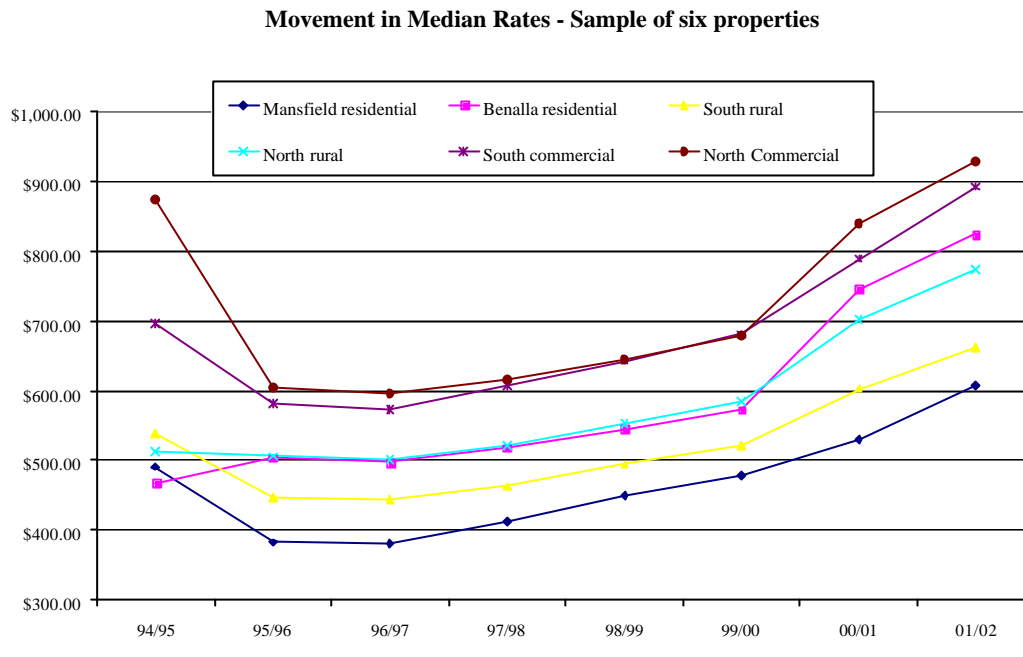
29. Delatite rates include a general rate and a flat municipal charge. There are differential rates for residential, rural and commercial properties and further differentials based on property location. There is also a flat garbage charge per property based on the size of the bin chosen by the occupant and other user charges.
30. As part of its investigations, the Panel examined rate increases in the Shire over an 8-year period. The \$ value and percentage change in total (budgeted) rates over this period is shown in the table below. The table shows the 20% reduction enforced by the (then) government in 1995. In the last two years, the increase in total rates collected has exceeded 10% per year.

Change in Rates in Delatite over 8 Years								
	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02
Rates collected \$000s	6,662	5,319	5,168	5,458	5,853	6,265	7,061	7,920
% Change over previous year		-20.0	-2.8	5.6	7.2	7.0	12.7	12.2

**Table 1:** Showing the value of rates collected over 8 years and the percentage change over the previous year

31. The overall rate figures do not always provide the best picture of rate increases actually paid by property owners, as they do not show the impact of changes in valuations. A further analysis was therefore undertaken to look at typical properties and the rates actually paid by property owners over the same 8-year period. This rate history is shown in the chart below. The types of properties examined were a typical or “median” property in:
- Residential Mansfield
  - Residential Benalla
  - Rural southern
  - Rural northern
  - Commercial southern
  - Commercial northern
32. As can be seen in this chart, some properties have seen significant rate increases over the period while others have seen much smaller increases, demonstrating the combined impact of change in valuations and change in the rate in the dollar.





**Figure 1:** Showing the movement in rates over 8 years for six individual typical properties in Delatite

33. Figures collected by the Local Government Division show that the average rates and charges per assessment collected in Delatite were \$644. This is lower than the mean for the state (\$705) and significantly lower than the mean rates and charges per assessment collected by other councils in the benchmark group of large shires (\$721).<sup>16</sup> This confirms anecdotal evidence provided to the Panel that rates and charges in Delatite are generally lower than those paid in like municipalities.
34. The O'Brien report and associated consultation considered the issue of rate differentials both between Benalla and Mansfield and between different types of properties within the shire. The Panel was aware that this issue is of concern to some parties and has not been resolved to their satisfaction. However, the Panel was not asked to comment on rate differentials and considers rating strategy a matter for the respective councils of the proposed new shires.
35. The O'Brien report noted that residential rates outside Benalla township (and hence in Mansfield) are low in comparison to a range of other rural shires. O'Brien concluded that there is ample scope for residential rate increases in the southern end of the shire.<sup>17</sup>

<sup>16</sup> Ibid

<sup>17</sup> O'Brien op.cit. p.48

36. During its consultation with key community organisations, the Panel was made aware of the concerns of farmers about proposed rate increases. Although rates (cents in the dollar) for farmers in Delatite are approximately 20% less than residential rates, the total amount paid by farmers can be a significant part of their cost structure. The Victorian Farmers Federation advised that, for some farmers, rates were their third highest single item of expenditure.

## SECTION FIVE: NEW BENALLA & NEW MANSFIELD

37. The proposal from Delatite Shire Council was to split the municipality into two new entities – New Benalla and New Mansfield – with the boundary between the two approximating the northern boundary of the old Mansfield Shire. New Benalla would be 2,328 square kilometres in size and New Mansfield 3,907 square kilometres.<sup>18</sup> The Panel has used the term New Benalla and New Mansfield for convenience to refer to the proposed new municipalities. If separation proceeds, other names for the new municipalities may be more appropriate. Key population and ratepayer statistics for Delatite and the proposed new entities are shown in the table below.

<b>Comparison of Delatite and Proposed New Entities</b>			
<b>Key statistic</b>	<b>Delatite Shire</b>	<b>New Benalla</b>	<b>New Mansfield</b>
Estimated resident population 2001	20,162	13,531	6,631
Current share of resident population	100%	67%	33%
Rate of change 1996-2001		-0.4%	1.1%
Estimated resident population 2021	23,060	14,504	8,556
No. of households 2001	8,191	5,560	2,631
No. of ratable properties	13,364	7,179	6,185
No. of voters on municipal roll	21,097	11,777	9,320

**TABLE 2:** Comparison of population and households in Delatite Shire and the proposed new entities

38. If the proposed de-amalgamation proceeds, both New Benalla and New Mansfield would be classified “small shires” by the Local Government Division. New Benalla would be similar in population size to Hepburn, Murrindindi and Northern Grampians. New Mansfield would have one of the smallest municipal populations in the State, similar in size to Hindmarsh, Pyrenees and Towong.

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<sup>18</sup> Municipal Association of Victoria, unpublished report.

## **SECTION SIX: OVERVIEW OF PANEL PROCESS**

39. In general terms, the Panel's process consisted of the following activities:
- Consultation with key stakeholders and review of earlier consultation activities (O'Brien report)
  - Review of the Framework document
  - Analysis of the staffing requirements of the new entities
  - Identification of the cost of running the new entities and preparation of proposed budgets
  - Analysis of the likely transition costs involved in moving to the proposed arrangements
  - Identification of likely changes in VGC and National Competition funding
  - Review of the service levels to be offered
  - Identification of the rate rises required to establish and operate New Benalla and New Mansfield
  - Review of the proposed "Resource Sharing Agreement"
  - Consideration of the impact of de-amalgamation on the community's infrastructure renewal requirements
  - Detailed analysis of the assets and liabilities of Delatite Shire and the development of a methodology to divide the assets and liabilities that is fair to both new municipalities
  - Identification and consideration of other issues that arose during the course of the Panel's activities
40. These steps in the process are described in detail in the sections that follow. Where practicable, the Panel considered trend data rather than relying solely on "one year" snapshots.
41. Throughout this document, analysis has been based on budget figures rather than "actuals". In local government, substantial variations between budget and actuals can occur. A check was therefore made on actual expenditure in Delatite Shire and this showed relatively minor variations of +3.1% in 98/99, -2.8% in 99/00 and +3.9% in 00/01. The Panel therefore considered it reasonable and appropriate to use budget figures.
42. Other financial processes could have been used to develop cost estimates for New Benalla and New Mansfield. For example, a totally zero-based budgeting exercise could have been undertaken or budgets could have been based solely on the average of like shires. The Panel took the view, however, that that zero based budgeting was too time consuming and carried too many risks and hence the current Delatite budget represented the best starting point. Similarly, the Panel considered that benchmarking was best used to test the outcomes rather than determine them.
43. Late in the review process (20 June 2002), shire management advised they wished to amend the model proposed in the Framework, to reduce the scale of resource sharing and to have the two proposed shires stand alone, other than in the community services area

where Delatite Community Care would continue to provide services to both proposed shires.<sup>19</sup> The Panel consequently sought an extension of time from the Minister to enable it to evaluate the varied proposal for de-amalgamation.

44. The examination of the likely costs of splitting Delatite Shire and establishing New Benalla and New Mansfield was undertaken in conjunction with senior staff at Delatite. The Chief Executive Officer and councillors were kept well informed throughout the process. The estimated budgets for the the proposed new shires, the split of assets and liabilities and the estimation of corporate overheads contained in this report have the broad agreement of the current councillors and senior management team at Delatite Shire.
45. The Panel would like to acknowledge the assistance it received from senior staff at Delatite Shire. They provided extensive information, analysis and support throughout the process.

## **SECTION SEVEN: CONSULTATION & SUBMISSIONS**

46. Members of the Panel wished to establish an open, fair and comprehensive process. It was important to the Panel that all interested parties had the opportunity to have their views considered. The Panel was however cognizant that the community had already been consulted extensively in the preparation of the O'Brien report and did not consider it appropriate to unnecessarily duplicate the process that had already taken place.
47. Advertisements were placed in the three local papers on two occasions. The first advertisement advised of the establishment of the Panel and its terms of reference; the second advised the community how to contact the Panel. The Panel's activities also received widespread editorial coverage in the local press and radio.
48. Details of the review process were placed on the Department of Infrastructure web site and a dedicated e-mail address was established.

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<sup>19</sup> Dobrzynski, R. *Correspondence to Panel* 20 June 2002

49. The Panel sought meetings with the key community organisations within the shire and with individuals and external organisations considered likely to have a view on the possible split or to have information that may assist the Panel in its deliberations. The Panel met with representatives of the following organisations and with the following individuals:
- Delatite Shire Council
  - Benalla Community Council
  - Mansfield Community Council
  - Cr Jessica Graves
  - Denise Allen MP, MLA– Benalla
  - Hon. Geoff Craig, MLC - Central Highlands
  - Hon. Graeme Stoney, MLC - Central Highlands
  - Victoria Grants Commission: John Lester (Chairman) and Colin Morrison
  - Benalla First: committee members
  - Action Benalla: Matt Jenkins & Linda Bennett
  - Benalla & District Residents Association: John Brownstein (President)
  - Mansfield & District Residents & Ratepayers Association: David Parsons (President)
  - Mansfield District Tourism Association: Simon Ritchie (President)
  - Former mayor of Delatite Shire: Tom Ingpen
  - Victorian Farmers' Federation: Don Howie
  - Australian Services Union: Brian Parkinson (Assistant Secretary) & Matthew Wright
  - Delatite Shire staff representatives: Kevin Murphy and David Karunya
  - Delatite Shire shop stewards: Neil Cartledge, Andrea Smith & Les Wallace
  - Victorian Local Governance Association: Mike Hill (Secretary)
  - Municipal Association of Victoria: Rob Spence (CEO)
  - Terry Mathews, consulting accountant to Delatite
  - Representatives of the EPA: Chris Bell & Les Hayes
  - Borough of Queenscliffe Chief Executive Officer Gary Price
  - City of Greater Geelong: Alex Sandles and John Rice
  - External auditor: Graeme Marriott, Hall Chadwick
  - Internal auditor: Bernard Frewin, AFS & Associates Pty Ltd
  - Mt Stirling Alpine Resort Management Board Executive Officer Diana Pappas
  - Delatite Shire staff including:
    - Robert Dobrzynski (CEO)
    - Kaylene Conrick (Manager Community Services)
    - Peter Franks (Director Administrative and Community Services)
    - Craig Bennett (Manager Finance)
    - Mehrdad Tezengi (Director Technical & Environmental Services)
    - Ian Geer (Executive Officer Tourism Development)
    - Matthew Nelson (Executive Officer Economic Development)
    - Chris Howard (IT Coordinator)
50. All meetings were useful and provided the Panel with a better understanding of the lead up to the split proposal and aided identification of issues that the Panel might consider. The Panel was appreciative of the time and information made available.

51. All interviewees were invited to put their views in writing or submit additional information if they wished. Those that submitted information were:
- Staff members and shop stewards
  - Action Benalla
  - Mansfield District Tourism Association
  - Hon. Graeme Stoney MP
  - Chris Howard, IT Coordinator
  - Tom Ingpen
  - Benalla First
  - John Brownstein
52. Interviews with the staff, shop stewards and the union representatives indicated that staff were largely accepting of the separation. No major staff concerns were identified.
53. The Panel also considered the information contained in the O'Brien report. This included a review of the survey, the consultations conducted and the financial modeling undertaken. The 500+ individual submissions to that study were made available to the Panel to review. (Four submissions could not be reviewed as the submitters had requested confidentiality.)
54. The Panel's review of these 500+ submissions showed that a clear majority were in favour of separation.
55. The Panel made 7 separate visits to the shire at regular intervals for a total of 15 days during the course of its review, meeting with key organisations and with staff who provided extensive assistance in the provision of data.
56. One submission was received in relation to the boundary of the proposed new shires and the impact this would have on the township of Tolmie. This issue is discussed further in Section 20. There were no other submissions received, either in writing or via the dedicated e-mail address. This was not surprising as the community had been extensively consulted during the O'Brien review and the Panel sought out all the key organisations in both Benalla and Mansfield during this review and provided them with ample opportunity to express their viewpoint.

57. On the basis of its meetings with key stakeholders, the Panel identified three main viewpoints held within the community:
- Strong support for de-amalgamation (mainly in the south)
  - Reluctant support for de-amalgamation based on a belief that this outcome was inevitable (mainly in the north)
  - Limited opposition to the de-amalgamation
58. The Panel did not attempt to quantify the extent of current support for de-amalgamation as it was not asked to do so and this had previously been undertaken through the survey conducted by O’Brien. The key support levels for de-amalgamation identified in the O’Brien report are shown in the table below.<sup>20</sup> According to this report, a large minority of New Benalla residents are willing to pay a 10% increase but not a 15% increase. A majority of New Mansfield residents are willing to pay a 15% increase but not a 20% increase.

<b>Proportion of Delatite Residents Supporting Division of the Shire at Designated Levels of Rate Increase</b>		
<b>Rate Increase Levels</b>	<b>New Benalla Residents</b>	<b>New Mansfield Residents</b>
10%	45.8%	76.9%
15%	23.7%	62.0%
20%	10.7%	46.0%
25%	4.2%	31.7%
30%	2.1%	20.3%
35%	1.1%	15.1%
40%	0.6%	11.4%
45%	0.4%	9.7%
50%	0.4%	9.7%

**TABLE 3:** Showing the proportion of residents in the proposed shires supportive of shire division at varying levels of rate increase

## **SECTION EIGHT: STAFFING**

59. Currently, Delatite Shire has 147.5 effective full-time positions (EFTs). The Framework proposed staffing models of 107.7 for New Benalla and 45.1 for New Mansfield. This was 152.8 in total, a net increase of 5.3 positions.

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<sup>20</sup> Miriam O’Brien Consulting, op.cit. Appendix Seven, p.28

60. The Panel took the view that the staffing models proposed were inadequate in a number of areas and recommended the addition of a number of positions.
61. Subsequently, Delatite Shire submitted an amended proposal that deleted the proposed resource sharing in financial services and engineering design and supervision. The revised staffing numbers in the amended proposal were considered reasonable by the Panel.
62. A complete list of current and proposed positions was then developed. This document is not included as an attachment because it contains personal and confidential information on employee wages. It was, however, agreed with Delatite Shire officers and has been lodged with the Local Government Division of the Department of Infrastructure on a confidential basis. A summarised version of this document showing the number of positions in different departments in the proposed shires is included as Attachment 2.
63. As explained in more detail later in this report, the Framework document proposed that New Mansfield purchase services from New Benalla and consequently New Benalla would need to employ staff over and above the number required for its own purposes. Under the amended proposal, this is still true as New Benalla will be the employer for community services staff working in New Mansfield. The table below has been prepared to show the number of EFTs in each proposed shire and the number of EFTs providing services to each proposed shire.

<b>Staffing in New Benalla and New Mansfield</b>			
	EFTs providing service to New Benalla	EFTs providing service to New Mansfield	Total
New Benalla employees	91.0	15.8	106.8
New Mansfield employees		48.8	48.8
<b>Total</b>	<b>91.0</b>	<b>64.6</b>	<b>155.6</b>

**TABLE 4:** Showing the number of staff employed in each proposed new shire and the number providing services to the other shire. (See also Attachment 2.)



64. To further check the reasonableness of the staffing numbers for each of the new entities, the Panel reviewed the staffing structures at similar sized municipalities. For New Benalla, comparisons were made with Hepburn, Murrindindi and Northern Grampians. For New Mansfield, comparisons were made with Hindmarsh, Pyrenees and Towong. These municipalities were selected as the benchmarks as they have populations similar in size to the proposed new entities. Both total staff numbers and staff for particular services were compared using data supplied to the VGC. Enquiries were made about the level of outsourcing to ensure that the benchmark municipalities had similar service arrangements as those proposed in the new entities. A summary of the results is shown in the table below.

<b>Comparison of Staffing in New Benalla and New Mansfield with Like Shires</b>								
	<b>Municipalities</b>							
	Hepburn	Murrindindi	Northern Grampians	New Benalla	Hindmarsh	Pyrenees	Towong	New Mansfield
<b>Total Staff</b>	85	117	126	91	69	56	42	65

**TABLE 5:** Showing the proposed number of staff in New Benalla and New Mansfield compared to staff employed in similar sized shires

65. New Benalla will have 91 staff after excluding those providing services to New Mansfield. This is fewer than Murrindindi and Northern Grampians but more than Hepburn. On this basis, the Panel concluded that the number of staff proposed for New Benalla is reasonable.
66. New Mansfield will have 65 staff after inclusion in the count of those staff at Benalla providing services (16 EFT) under the proposed resource sharing agreement. This is fewer than Hindmarsh but more than Pyrenees and Towong. On this basis, the Panel concluded that the number of staff proposed for New Mansfield is reasonable.
67. In addition to reviewing the numbers of staff proposed, the Panel also reviewed the level or band of the proposed positions to ensure sufficient capability to carry out the duties required. In a significant number of areas, the staffing model proposed staff in New Mansfield at a lower classification than equivalent positions in New Benalla. The table below shows these disparities.

<b>Comparison of Classification Levels in New Benalla &amp; New Mansfield</b>		
<b>Position</b>	<b>New Benalla</b>	<b>New Mansfield</b>
Secretary/admin	5A	4A
IT	7C	4A
Technical & environment	Director	Manager
Admin & Community Services/Shire Services	Director	Manager
Local Laws	6A	4A
Building	7D	6A
Environmental Health	5A	7D

**Table 6:** Showing classification levels of equivalent positions in New Benalla and New Mansfield

68. The Panel is of the view that the salary levels in New Mansfield may need to be reviewed in subsequent years if it is to operate competently and provide the level of service that residents will expect. (See also Section 19: Sensitivities.) Appropriate salary levels are important, not only in attracting competent staff, but also in retaining them. High levels of staff turnover can add significantly to costs.
69. The Framework document staffing model allowed for a Chief Executive Officer in both proposed shires. The proposed salaries for these positions were benchmarked against the salaries of CEOs in similar sized shires and the results are shown in the table below.<sup>21</sup>

<b>Benchmarking of Proposed CEO Salaries</b>			
<b>Shire</b>	<b>Population</b>	<b>Salary package of CEO – 2001 \$'000</b>	<b>Revised Salaries \$'000</b>
New Mansfield	6,631	106	120
Average of 4 like-sized shires	6,016	112	
New Benalla	13,531	148	148
Average of 14 like-sized shires	11,962	121	

**TABLE 7:** Showing a comparison of the proposed CEO salaries with like-sized councils.

<sup>21</sup> DOI Local Government Division 2001 Council CEO Remuneration Analysis p.1. Figures include bonus payments and are adjusted to include vehicle expenses and payments for private use of vehicle

70. The originally proposed salary of the New Mansfield CEO is lower than other like sized shires and would, in fact, be the lowest local government CEO salary in the state.<sup>22</sup> This might create difficulties in attracting candidates of sufficient calibre to manage the shire, particularly in the highly demanding establishment phase. The Panel therefore recommended an increase in the New Mansfield CEO salary to \$120k..
71. The proposed salary of the New Benalla CEO is high in comparison to that paid in similar shires. However, the Panel considers this may be reasonable, if the current Delatite incumbent is successful in seeking appointment to the position as he should have no loss of benefit as a result of any split of Delatite Shire. Whilst recognising that CEO packages are a matter for negotiation between council and CEO, it is considered that, over time, the salary for this position should be held until it more closely resembles the state average.
72. A comment on other senior positions is also warranted. The Framework proposed that New Benalla have a CEO and three Directors. New Mansfield, on the other hand, would have one CEO and one other senior officer at manager, not director, level. This original proposal for New Mansfield was that there would only be two executives, one of whom would have financial and administrative skills and the other would have engineering skills. This is similar to the local government executive model used prior to 1990 when there was a Town Clerk and a Shire Engineer. In other words, New Mansfield would have a very small, comparatively lower paid executive team. In the amended proposal, an additional manager was added to New Mansfield's organisation structure. While the proposed executive team in New Mansfield would still be small, there are a number of other shires with a team of this size and the Panel therefore did not recommend any further changes in executive numbers. However, the Panel did recommend that the salary for the proposed Manager, Shire Services and Manager Engineering in New Mansfield be increased to ensure sufficient salary to attract quality candidates. It also recommended a change in title and increased salary for the senior position in Finance in New Mansfield.
73. In summary, the Panel concluded that:
- The staffing model proposed by the shire in the Framework was not sufficient and should be amended to include an additional 1.5 EFTs at New Mansfield and 1EFT at New Benalla
  - The additional positions set out in Delatite's amended proposal were reasonable
  - The proposed salary for the New Mansfield CEO should be increased to enable recruitment of a suitably skilled candidate
  - The proposed salaries for the New Mansfield Manager Shire Services, Manager Engineering Services and Manager Finance should also be increased to enable recruitment of suitably skilled candidates
  - The seniority levels of other staff at New Mansfield will be lower in many cases than their equivalents at New Benalla and should be reviewed after 12 months of operation
74. The proposed organisational charts for New Benalla and New Mansfield are shown in Attachment 3.

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<sup>22</sup> Ibid

75. The cost of the staff positions for the two proposed shires was assessed and is shown in the table below.

<b>Estimates of Labour Costs in New Benalla and New Mansfield</b>				
	Delatite	New Benalla	New Mansfield	Total for new shires
<b>Framework</b>				
No. of staff	146.2	107.7	45.1	152.8
Cost \$'000		3,838	2,698	6,536
<b>Panel estimates</b>				
No. of staff	147.5	91.0	64.6	155.6
Cost \$'000	6,290	4,118	2,722	6,840
Cost/employee \$'000	42.6	45.3	42.1	44.0

**Table 8:** Showing labour costs in Delatite, the proposed new shires and the combined costs of the new shires

76. These costs were used to develop budgets for New Benalla and New Mansfield as shown in Section 15.
77. The Minister has indicated that no staff member should be disadvantaged by the proposed separation. The Australian Services Union has met with management on this matter and it is understood that there are no unresolved industrial issues. Staff have been advised as to which municipality is likely to be their employer and it is understood that staff are in agreement with the proposed arrangements.

## **SECTION NINE: SERVICE LEVELS**

78. The Delatite Shire provides the normal range of services to residents, although clearly the levels of provision are limited by budget considerations. Service provision is mostly “in-house”, although waste collection/management and some road services are provided under contract. There are a large number of holiday houses in the southern end of the municipality, which may be presumed to place less demand on council services than permanently occupied properties.
79. The Local Government Division collects data on performance measures for all councils. One of these Key Performance Indicators (KPIs) is community satisfaction with overall performance of the council. On this indicator, Delatite scored poorly in 2001 in

comparison with other large shires (the benchmark group) and poorly in comparison with all other councils in the state, ranking 75<sup>th</sup> out of 78.<sup>23</sup>

80. This result is not entirely surprising given that Delatite's operational expenditure per assessment (i.e. rated property) is comparatively low. It spends \$1,422 per assessment compared to the state average of \$1,626 and an average of \$1,528 in like sized shires.<sup>24</sup> The result is also not surprising in the light of current community feeling about the separation of the shire.
81. The Panel noted that a number of the respondents to the O'Brien community survey complained of the inadequacy of various services. The Panel did not attempt to correct these alleged inadequacies when it set its recommended staff structures.
82. The Panel did, however, consider the impact of the proposed de-amalgamation on services provided to residents, ratepayers and visitors and whether there would be any material alteration in the level or quality of these services.
83. The shire currently provides many of its services on a split model, based in both Benalla and Mansfield. These services operate independently in the north and south of the shire. The Framework proposed no change in this arrangement and hence service provision would remain essentially the same in these areas. The Panel considered this arrangement reasonable. The services that already operate on a split model are:
- Roads and infrastructure maintenance
  - Parks and gardens maintenance
  - Local laws
  - School crossings
  - Statutory planning and building
  - Environmental health
  - Customer service
84. Other service delivery mechanisms proposed in the Framework and considered appropriate by the Panel are as follows:
- The roles of the economic development and tourism officers are to be modified slightly so that one can be employed in each proposed shire
  - The art gallery is to continue in its current form in Benalla
  - An additional person is to be employed in Rates to raise service levels in New Mansfield
  - Additional customer service staff are to be employed in New Mansfield
  - Library services would continue to be provided through the Regional library
85. In three service areas, the Framework proposed the use of a resource sharing arrangement. The proposal was that New Mansfield would buy engineering design and supervision, financial services and community services from New Benalla. In turn, New Benalla would buy environmental health services from New Mansfield. In the first amendment to

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<sup>23</sup> Department of Infrastructure. *Local Government in Victoria 2001* Attachments p.17

<sup>24</sup> Ibid p.23-24

- the Framework, shire management advised that the proposal had been altered such that each new shire would provide its own environmental health services.
86. In the second amendment, shire management advised that the proposal to resource share in financial services and engineering design and supervision had been deleted and only community services would be a shared service.
87. In order to assess the viability of this arrangement, the Panel:
- Considered the staffing levels in Delatite Community Care and whether they were adequate to provide services to both New Benalla and to New Mansfield under contract
  - Reviewed the draft Resource Sharing Agreement (RSA). The RSA is intended to be the umbrella agreement covering the legal arrangements between the proposed shires
  - Reviewed the draft Service Level Agreement (SLA) to be attached to the RSA. The SLA is intended to document in detail the nature and level of service to be provided in each community service area.
88. The Panel's review of the RSA and SLA is covered in Section 10 below. The remainder of this section considers the staffing level within Delatite Community Care.
89. Community services are currently provided through Delatite Community Care. While this is a unified municipal service, the actual service delivery is largely split on a geographical basis. Staff generally provide services in one or other end of the municipality and hence largely consider themselves service providers to either Benalla or Mansfield. No additional staff were proposed in the Framework document and the Panel took the view that the continuation of a unified community care unit with the same number of staff was appropriate.
90. In the event of separation, there will be an increase in the number of councillors serving the community and this represents an increase in both representation and governance. Both communities may be considered better served by the increased number of councillors available to represent their needs. The Panel was advised that the Shire will be proposing there be 7 councillors in New Benalla and 5 in New Mansfield. The Panel was not asked to comment on this matter.
91. In summary, the Panel is of the view that service levels will not be materially altered should the de-amalgamation proceed in the manner described in the Framework (as subsequently amended) and the additional recommended positions are employed.
92. Some of the staff representatives consulted as part of the Panel's enquiries expressed a view that residents in New Mansfield would be expecting a higher level of service given their current dissatisfaction and given the fact that they would be paying higher rates. If service levels did not increase, there was a concern that staff may carry the brunt of on-going resident dissatisfaction. The Panel was not in a position to address this issue but it will be important that any new council communicate to residents the level of service that may reasonably be expected.

## SECTION TEN: RESOURCE SHARING

93. The de-amalgamation Framework document submitted by Delatite Shire proposed a “Resource Sharing Agreement” between New Benalla and New Mansfield. Under the original proposal, the two entities would buy services from each other rather than undertake all functions independently. The final amended proposal was that New Mansfield would only buy community services from New Benalla.
94. The Panel was initially surprised that resource sharing was proposed, as one of the issues of concern for Mansfield residents raised in the O’Brien report is that they are required to travel to Benalla for some services.<sup>25</sup> However, community services are provided from two bases, Benalla and Mansfield, and this would not change under a shared arrangement. It is evident, therefore, that the proposed resource sharing model will not require Mansfield residents to travel to Benalla for services.
95. The O’Brien report did not anticipate any resource sharing as it took the view that there were limited opportunities beyond those that already existed, such as the library.<sup>26</sup> The model and associated costings in that report were based on two stand alone councils.
96. As the proposed new budgets (and hence the proposed rate increases) for the proposed two entities are based on a purchasing agreement for community services, it is critical that the arrangement works satisfactorily for both parties. The Panel therefore considered it essential to review the draft legal documentation that would cover this arrangement.
97. The Shire had its lawyers draw up a draft Memorandum of Understanding (MoU) between the two community councils. As the proposed new entities are not currently constituted, the MoU is intended to reflect the agreement reached between the current democratically elected representatives (community councils) of what may become the new municipal districts. The MoU anticipates that this agreement will be honoured and given effect by the new shires upon being constituted. The Panel is of the view that more certainty than this is required as part of the establishment of the new entities and this is further discussed below.
98. The Panel takes the view that the MoU is, however, an important statement of principle and direction and supports the proposal that the two community councils proceed to consider and resolve upon it. The Panel reviewed the proposed MoU and recommended the following alterations:
- The MoU should include a statement of principle regarding the intent of the parties to cooperate and work in good faith to ensure the communities in both new entities are well served by the resource sharing arrangement
  - Clause 3 covers the requirement for New Mansfield to remit all monies due at the end of the month in which the services are provided. This clause should be expanded to reflect the fact that it may be necessary for New Benalla to identify the payments it

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<sup>25</sup> O’Brien op.cit. Executive summary p.v

<sup>26</sup> O’Brien op.cit. p.64

believes are due on a monthly basis and for New Mansfield to remit monies due say, within 30 days

- Clause 9.4 covering the establishment of a Service Level Agreement Committee should be expanded to detail the role of the Committee and its minimum meeting requirements
- A clause should be inserted requiring New Benalla to keep records and report regularly on the level of service provided to New Mansfield

99. In addition to reviewing the draft legal documentation, the Panel sought out information about purchasing agreements between other local authorities. Advice from the MAV indicated that purchasing on the scale originally proposed between New Benalla and New Mansfield was not currently undertaken by other municipalities. The nearest like-arrangement, according to the MAV, occurs between the City of Greater Geelong and the Borough of Queenscliffe. A visit was therefore arranged to these municipalities to interview those responsible for the purchase of services and for the delivery of those services.
100. Both municipalities willingly provided information about their contractual arrangements on a confidential basis and the Panel was grateful for this assistance. Under the arrangements between these municipalities, Queenscliffe called for tenders for roads, parks and reserves maintenance and the contract was won in a normal tendering process by the City of Greater Geelong. Greater Geelong Council reviewed the tender submitted to ensure full costing. It also included a profit margin as required under competition policy. Queenscliffe established higher service levels than delivered in Geelong and hence the Geelong staff are required to work to different specifications in the two municipalities. The contract consists of a clearly specified set of work, for which a monthly lump sum is charged. One-off and unspecified work is agreed prior to commencement and charged on a pre-agreed schedule of rates.
101. The staff involved in this arrangement in both municipalities were highly satisfied with the service provided and the relationships established between the parties. Through discussion with them, it was possible to identify a set of critical success factors essential to the success of such arrangements. These critical success factors were:
- Clearly specified service arrangements
  - Appropriate inspection regimes
  - Monthly written reports
  - Strong customer service ethic and tailored approach to the needs of the customer-municipality
  - Staff clearly allocated to service provision in one or other municipality. Only management provides services to both municipalities
  - Value adding through the provision of management systems that the smaller municipality was not in a position to establish itself
  - Monthly meetings where all aspects of service provision are reported on, prior to submission of an invoice
  - Both parties committed to development of trust and co-operation



102. The Panel also reviewed the draft Service Level Agreement proposed to cover the provision of community services by New Benalla to New Mansfield. The Panel's first opportunity to consider this document was toward the end of the review (26 June 2002) and the document was still incomplete at that stage. At the time of writing, the SLA provisions in relation to policy development and strategic planning by New Benalla on behalf of New Mansfield were lacking in clarity. The recommended staffing model does not provide for these community service planning resources in New Mansfield and hence it is essential these services are provided under the agreement.
103. The SLA does, however, include most of the critical success factors identified in the Geelong-Queenscliffe arrangement. Included arrangements are clear specifications, written reports, strong customer service ethic, clear allocation of staff, monthly meetings between the parties and positive approaches to the development of trust. The agreement, at the time of writing, does not appear to include arrangements for service inspection and monitoring by New Mansfield nor the provision of better systems by New Benalla.
104. Overall, however, the draft SLA provides a good basis for the provision of services to New Mansfield by New Benalla but further development of the documentation is required. The panel recommends that the two community councils consider these documents at an early stage and provide direction to staff in relation to their completion.
105. The SLA also provides for the establishment of a Special Committee of (New Benalla) Council to govern the provision of community services to both proposed shires. Under this proposal, New Mansfield would have representation on a special committee of New Benalla. The Panel is of the view that such an arrangement would need to be clearly understood and accepted by both councils if it is to prove workable.
106. In summary, the draft RSA and draft SLA have the potential to form a good basis for the provision of services from one shire to the other. However, there is still significant development required in both documents and similarly extensive consideration required by the representatives of the two communities to ensure the development of a workable agreement between the parties.

## **SECTION ELEVEN: INCOME**

107. Delatite's income comprises rates, a municipal charge, garbage charges, other user charges and grants. Grants include untied and tied grants for both operational and capital expenditure. Total budgeted income in 2001/02 was \$18.3m of which approximately 65% was raised locally and 35% was received in grants.
108. In order to determine the likely incomes of New Benalla and New Mansfield, the Panel apportioned this income in the following way:
- Rates and charges were split geographically, that is, where they were collected, and then escalated by 12% in New Benalla and 16.5% in New Mansfield
  - Garbage charges were also split geographically

- VGC funding was apportioned according to the formulae used to determine municipal allocations and provided to the Panel by the Commission
- National Competition grants were estimated and provided to the Panel by the VGC
- Roads to Recovery grants were split according to the proportion of roads in each part of the municipality
- Other grants were apportioned according to a variety of methods which are set out in the proposed budgets for the new shires shown in Attachment 4.

109. The anticipated income of the proposed shires is shown in the table below together with the income estimates from Delatite’s Framework document. As can be seen, there is a significant difference and some explanation is warranted.

<b>Estimates of Income in New Benalla and New Mansfield</b>				
	Delatite Shire \$'000	New Benalla \$'000	New Mansfield \$'000	Total for new shires \$'000
<b>Framework estimates</b>				
Rates & charges (excl. garbage charge)	7,920	5,229	3,787	9,016
Other income	10,390	6,064	4,326	10,390
<b>Total income</b>	<b>18,310</b>	<b>11,293</b>	<b>8,113</b>	<b>19,406</b>
<b>Panel estimates</b>				
Rates & charges (excl. garbage)		5,258	3,757	9,015
Other income (incl. garbage)		6,534	4,040	10,574
<b>Total income</b>		<b>11,792</b>	<b>7,797</b>	<b>19,589</b>
<b>Difference between Framework and Panel estimates</b>		<b>+499</b>	<b>-316</b>	<b>183</b>

**Table 9:** Showing estimates of income in the original Framework document compared to Panel estimates. (Numbers have been rounded.)

110. The main source of difference in the two sets of figures is VGC funding. The Framework document had split VGC funding on the basis of enumerated population (which includes visitors) whereas the VGC formulae, while complex, relies heavily on resident population. Enumerated population results in a 59%-41% split whereas the more accurate resident population split is 67%-33%. In addition, the combined total available to the two proposed municipalities would be greater than that available to Delatite alone. The Panel obtained its estimates directly from the VGC.

111. As rate income is relatively small in both proposed shires, any change in other income or expenditure would have a significant impact on rate levels. 1% of New Mansfield rates represents an amount of around \$38k and 1% of New Benalla rates represents an amount of around \$52k.
112. The Panel's estimates for the incomes of the proposed shires are \$11.8m for New Benalla and \$7.8m for New Mansfield. These figures have been incorporated in the budget estimates in Section 15.

## **SECTION TWELVE: NON-LABOUR COSTS**

113. The Framework submitted by Delatite Council provided revenue and expenditure budgets for the two new entities. These budgets were based on the 2001-2002 Delatite budget. The process used by Delatite to establish operating (non-labour) costs for the proposed entities was as follows:
- The proposed staffing requirements were determined and costed
  - Historical labour cost as a proportion of total costs in Delatite was calculated and the assumption made that the same ratio would apply in both the new entities
  - Non-labour ("other") costs were then estimated using this approach for the two new entities
  - Loan repayments for establishment costs were calculated
  - Corporate overheads to be paid for services provided were assessed as a fixed percentage of labour costs
114. The process used by the Panel to establish the non- labour or other costs for the new entities was much more highly detailed, involving examination of every line item in the Shire's 2001/02 budget. This was considered necessary as the Framework estimates were based on very broad assumptions and a higher level of accuracy was required by the Panel.
115. More specifically, the process was as follows. Each line item in the current Delatite budget was examined and a decision made whether to:
- split the expenditure in two
  - allocate the entire expenditure to one or other entity
  - double the expenditure as both entities would incur the same cost
  - split the expenditure in two and then escalate it to allow for the fact that it may cost more than 50%, but not double, for that item
116. Before examining each item of expenditure, the Panel deleted from Delatite's 2001/02 budget:
- all abnormal and non-recurring items of income and expenditure
  - all internal charges (i.e. charges levied by one part of the organisation for services rendered to another)

117. Attachment 5 provides a more detailed explanation of the split and escalation methodology used to determine non-labour expenditure.
118. The table below shows the estimates of non-labour costs developed by the Panel, compared to those shown in the Framework document. Capital expenditure is included.

<b>Estimates of Non-labour Costs in New Benalla and New Mansfield</b>				
	Delatite Shire \$'000	New Benalla \$'000	New Mansfield \$'000	Total for new shires \$'000
<b>Framework document</b>				
Other costs	11,462	6,773	4,762	11,535
<b>Panel estimates</b>				
Other costs		6,801	4,598	11,399
<b>Difference</b>		28	-164	-136

**Table 10** Showing the Framework estimates of non-labour costs and the Panel estimates of these costs

119. The Framework estimates of non-labour costs are similar to the Panel's estimates. These figures have been incorporated in the budget estimates in Section 15.

### **SECTION THIRTEEN: TRANSITION COSTS**

120. Clearly, one-off costs will be incurred if the split of the Shire proceeds. In its Framework, the Council set out the costs it believed would be incurred in the transition from one to two shires. These are shown in the table below.
121. This estimation of transition costs was significantly lower than that estimated in the O'Brien report. That report provided for transition costs of \$1,210k, which is approximately \$331k more than Delatite's estimate.<sup>27</sup> The Panel also considered Delatite's estimate of transition costs insufficient. For example, no allowance is made for the payment of interim administrators, if needed. The Panel is of the view that an additional or contingency amount should be included to bring the total amount allowed for transition to \$1 million.

<sup>27</sup> Miriam O'Brien Consulting, op.cit. p.61

<b>One-off Transition Costs (\$'000)</b>			
	<b>New Benalla</b>	<b>New Mansfield</b>	<b>Total</b>
Legal	75	75	150
Information systems	161	169	330
Accommodation/fleet		116	116
Plant	14	229	243
Corporate identity/signage	20	20	40
<b>Total – Delatite estimates</b>	<b>270</b>	<b>609</b>	<b>879</b>
Panel's contingency for additional items	37	84	121
<b>Total – Panel estimates</b>	<b>307</b>	<b>693</b>	<b>1,000</b>

**TABLE 11:** Showing de-amalgamation transition costs estimated by Delatite Shire and those recommended by the Panel

122. As can be seen, the share of the costs is much higher in New Mansfield than in New Benalla. When estimating these transition costs, staff at Delatite considered the split of plant and equipment and valued the key items. The value of plant at the depot in Mansfield was significantly higher than that at Benalla and a cash adjustment was consequently proposed to achieve an equitable split. The Panel has reviewed these figures and considers them reasonable. (See Section 18 for a discussion on the allocation of Delatite assets and liabilities to the proposed new municipalities.)
123. Delatite has proposed that the new shires take out a five-year loan to pay these transition costs. The cost of borrowing and the principal repayments have been built into the budgets prepared for New Benalla and New Mansfield in Section 15. Originally, Delatite had estimated interest rates on this loan at 5.95% but the Panel considers a rate of 7% more reasonable in the light of recent movements in interest rates.

#### **SECTION FOURTEEN: CORPORATE OVERHEADS**

124. Under the proposed resource sharing arrangements New Benalla will provide New Mansfield with all community services. About 16 New Benalla EFTs will provide these services.
125. New Benalla will recover from New Mansfield the direct cost of employing all EFTs engaged in New Mansfield work. These costs include salaries, superannuation, annual and long service leave, all other employee entitlements and the WorkCover levy.

126. Direct costs exclude those expenses incurred in managing and administering the 16 EFTs. These indirect costs (usually called overheads) include the time New Benalla’s senior management team spends in directing and managing the 16 EFTs, the expenses incurred in maintaining these employees on the New Benalla payroll and the normal risks associated with employing staff.
127. The Panel recognises that, in all probability, New Benalla will incur negligible additional *dollar* costs in employing these extra people. However, New Benalla will undoubtedly incur an “opportunity” cost of employing the 16 EFTs. That is, New Benalla residents will be deprived of the opportunity of receiving 100% of the benefits of New Benalla’s management team while it is directing the provision of services to New Mansfield.
128. The Panel devoted considerable time to placing a value on this opportunity cost that was fair to the ratepayers of both New Benalla and New Mansfield. During the course of its review the Panel:
- estimated New Benalla’s total relevant overhead expense
  - estimated the amount of time likely to be spent in New Benalla on all activities associated with employing those people involved in delivering services to New Mansfield
  - calculated the amount of overhead expense associated with the delivery of services to New Mansfield, and
  - calculated this cost as a percentage of the direct cost of employing the 16 EFTs.
129. Based on the above process, the Panel assessed:
- New Benalla’s overhead expense associated with the delivery of services to New Mansfield would be between \$80k and \$90k per annum, and that
  - this would equate to about 15% of the direct cost of employing those people delivering services to New Mansfield
130. The Panel then compared the 15% overhead calculation with overhead charges used by other suppliers of local government services. (Most of this information was provided to the Panel on a confidential basis). The comparison indicated that, while 15% is at the lower end of typical charges, it is within a range commonly used by other organisations.
131. The Panel recognises that there are many and varied ways of calculating and applying overhead charges. However, based on the process that it used (and is described above) the Panel is of the opinion that a 15% overhead charge applied to the direct cost of providing services to New Mansfield would be fair to both New Benalla and New Mansfield ratepayers.
132. The Panel notes that the recommended calculation makes no specific provision for a profit element. The arrangements in place between Queenscliffe and Greater Geelong do include a profit element. However, because New Benalla will incur negligible incremental dollar costs in employing the additional EFTs, the Panel is of the opinion that a profit element is, in effect, incorporated in the calculation.

133. An analysis of the cost of buying community services from New Benalla and the cost of New Mansfield providing these services themselves was not undertaken in any detail. On the surface, it would appear that New Mansfield may be able to provide their own community services at about the same cost as purchasing from New Benalla by employing a manager of community services. However, staff advised that there would be substantial time required to separate community services and negotiate other appropriate partnerships. The Panel accept this view but recommend that the proposed new shires consider this matter further once separation has taken place.
134. The Panel discussed the above issues with members of both Community Councils who concur with the Panel's opinion.
135. Overhead receipts of \$85k and payments of \$85k for New Benalla and New Mansfield respectively have been included in the budget estimates in Section 15.

#### **SECTION FIFTEEN: BUDGET ESTIMATES**

136. Using the process described in the sections above, the Panel constructed estimated statements of income and expenditure for New Benalla and New Mansfield. The sections above established estimates for:
- Rates and charges
  - Other income, including VGC income
  - Staff costs
  - Non-labour costs
  - Transition costs
  - Corporate overheads
137. These figures are shown in the table below. It should be remembered that the rates and charges are based on Delatite's 2001/02 budgeted rates plus 12% for New Benalla and 16.5% for New Mansfield (being the rate increases assumed in the Framework). Thus Table 12 below reflects the notional budgets for the two new municipalities as if they had been created on 1 July 2001. This is a budget summary and the full chart of accounts is shown in Attachment 4.

<b>2001/02 Budget Estimates for New Benalla and New Mansfield</b>					
	Delatite Shire \$'000	Framework Combined Shires \$'000	New Benalla \$'000	New Mansfield \$'000	Combined Shires \$'000
Rates & charges (excl. garbage charge)	7,920	9,016	5,258	3,757	9,015
Other income	10,390	10,390	6,534	4,040	10,574
<b>Total Income</b>	<b>18,310</b>	<b>19,406</b>	<b>11,792</b>	<b>7,797</b>	<b>19,589</b>
Employee costs	6,290	6,536	4,118	2,722	6,840
Other costs	11,460	11,535	6,801	4,598	11,399
Loan repayment for establishment costs	-	207	74	167	241
Corporate overheads	-	-	(85)	85	-
<b>Total Expenditure</b>	<b>17,752</b>	<b>18,278</b>	<b>10,908</b>	<b>7,572</b>	<b>18,480</b>
Funds available for Capital Works	558	1,128	884	225	1,109

**TABLE 12:** Showing Budgets for Delatite Shire, New Benalla, New Mansfield and the total of the 2 proposed shires

138. These budget estimates show that New Benalla and New Mansfield are both operationally viable. New Benalla would operate with surplus of \$884k available for capital works and new Mansfield would operate with a surplus of \$225k available for capital works. Capital requirements for the two proposed shires are critical to viability and are further discussed in Section 16 below.
139. The process of preparing these budgets was undertaken jointly with key staff in shire management, both to ensure correct information was used and to ensure the process was transparent and agreed.



140. Table 12 above shows the budget estimates assuming notional rate increases from 1 July 2001 of 12% in New Benalla and 16.5% in New Mansfield. Table 13 below shows the financial impact of de-amalgamation on the ratepayers of New Benalla and New Mansfield assuming *no change* in Delatite’s 2001/02 rates and capital improvement program. This table indicates that the cost of de-amalgamation to ratepayers in the north of Delatite is virtually zero, but that the cost to ratepayers in the south is about 16.8%.

<b>Rate Increases Required for Separation</b>			
	New Benalla \$'000	New Mansfield \$'000	Combined \$'000
2001/02 budget rates and charges	4,695	3,225	7,920
Other income	6,534	4,040	10,574
Total income	11,229	7,265	18,494
Expenditures	10,908	7,572	18,480
Surplus/(deficit)	321	(307)	14
2001/02 budget CIP	326	232	558
Additional rates (\$ value) needed	5	539	544
Rate increase as % of total rates	0.1%	16.8%	

**Table 13:** Showing the financial impact of de-amalgamation on the ratepayers of the north and south of Delatite

## **SECTION SIXTEEN: INFRASTRUCTURE**

141. The maintenance and renewal of infrastructure is a major issue for local governments as many councils have ageing assets and no plan in place to address renewal costs. The need to ensure that infrastructure renewal requirements were considered was specifically addressed in the Terms of Reference for this Panel.
142. Delatite has developed an asset register to record its assets but has not yet developed an asset management strategy and hence it is not possible to identify the amount required to renew and maintain all assets.
143. The value of infrastructure in Delatite is about \$161 million, of which approximately 75% is in New Benalla and 25% in New Mansfield.

144. Depreciation as a percentage of the written down value of assets is currently 2.04%.<sup>28</sup> Depreciation shown in Delatite’s 2001/02 budget is \$3.3m<sup>29</sup> and expenditure on asset renewal did match this figure.
145. The Panel examined capital spending over the last five years and this is shown in the table below. Figures are actual expenditure, rather than budget estimates. The average annual expenditure is about \$3.6m.

Capital Expenditure in Delatite Shire						
	1997/98	1998/99	1999/00	2000/01	2001/02	5-year average
Infrastructure spending	\$4.9m	\$2.3m	\$3.2m	\$3.0m	\$4.6m	\$3.6m
% Change over previous year		-54.1%	+39.1%	-6.2%	-53.3%	

**Table 14:** Showing the last 5 years of capital expenditure in Delatite Shire and the 5-year average

146. As it was not possible to compare capital expenditure with infrastructure renewal requirements (because there is no asset management strategy), the Panel took another approach and compared Delatite’s capital expenditure with other like councils. Delatite currently spends \$227 per assessment (ratable property) on capital compared to the State average of \$319 and an average in like councils of \$337.<sup>30</sup> On these figures, Delatite is spending 29% less than the State average and 33% less than comparable shires on capital.
147. A large proportion of capital funds come from grants and therefore the amount varies from year to year. In addition to grants, the Shire normally spends an amount from rates on capital items. This amount is shown in Delatite’s budgets as the “amount available for capital”. In 2001/02, this amount was \$558k as shown in Tables 12 and 13. The Panel therefore compared the amount available for capital in Delatite’s budget over the last 3 years with the amount allowed in the budgets developed for New Benalla and New Mansfield to determine whether or not those proposed budgets are consistent with past trends. These figures are shown in the table below.

<sup>28</sup> Data supplied by Delatite Shire 6 June 2002. Figures based on assets excluding art collection & office furniture & equipment

<sup>29</sup> This depreciation figure is on all assets, including office furniture and equipment

<sup>30</sup> Department of Infrastructure *Local Government in Victoria* Attachments p.23-24

<b>Comparison of Capital Expenditure from Rates</b>			
	Delatite \$'000	North of the Shire (New Benalla) \$'000	South of the Shire (New Mansfield) \$'000
99/00	386	229	157
00/01	260	154	106
01/02	558	326	232
Proposed budgets for new shires	1,109	884	225

**Table 15:** Showing capital expenditure from rates over the last 3 years (split between the north and south of the Shire according to % of rate revenue raised) compared to the amount allowed in proposed budgets.

148. As can be seen in this table, the proposed budgets developed by the Panel allow for a significant increase in capital spending from rates in New Benalla and about the same amount as previously in New Mansfield. On this basis, the Panel concluded that the capital allowances in the proposed budgets were adequate.
149. It should be noted, however, that the Panel is not suggesting that capital expenditure in the proposed new shires will satisfy future community needs. Capital expenditure in Delatite is low compared to State averages and this will still be true in New Benalla and New Mansfield. The Panel took the view that its role was to ensure that budgeted income is at least sufficient to maintain capital expenditures at current levels. The new councils will need to increase capital spending levels if they are to address their perceived infrastructure renewal gaps.

## **SECTION SEVENTEEN: REQUIRED RATE INCREASES**

150. The Framework proposed rate increases of 12% for New Benalla. Under the model in the Framework, this level of rate increase would have maintained current service levels and allowed for a surplus of about \$782k to be spent on capital. The Panel's budgets in Section 15 show a slightly better position for New Benalla with a surplus of about \$884k, available to spend on capital, assuming a 12% rate increase. The rate increase required solely to fund separation in New Benalla is 0.1%. (However, see further below for a discussion of other rate increases required.)

151. The Framework proposed a rate increase of 16.5% for New Mansfield. Under the model in the Framework, this level of rate increase would have maintained current service levels and allowed for a surplus of about \$343k. The Panel’s budgets in Section 15 show a rate increase of 16.8% will maintain current service levels and provide a surplus of about \$225k to spend on capital. This surplus for capital is less than allowed in the Framework but consistent with previous years. If the council wished to provide the same level of surplus for capital expenditure as shown in the Framework a further \$118k would be required. An additional rate increase of 3.1% would be necessary to provide this improved funding for capital works.
152. The Framework also provided a five-year forward plan showing the future rate increases required to maintain the same service and capital levels in the new entities. These proposed rate increases are shown in the table below. It should be noted that the increases proposed for 2002-2003 are in addition to the increased rates upon separation.

<b>Rate Increases Proposed in Framework Document</b>					
	Upon separation	2002-03	2003-04	2004-05	2005-06
Delatite	-	5%	4%	4%	4%
New Benalla	12%	5%	4%	4%	4%
New Mansfield	16.5%	5%	4%	4%	4%

**TABLE 16:** Showing the rate increase proposed by Delatite Shire for New Benalla, New Mansfield and for Delatite if there is no split

153. Senior management has advised that it is likely that the Council will adopt the 12% and 16.5% rate increases for 2002/03, in advance of the proposed split taking place. This will have the effect of providing additional funds before they are needed and hence will give the Council a buffer against any unforeseen costs.
154. The Panel itself made no attempt to project rate increases that may, or may not, be needed in the future. Council has, however, updated its calculation of the impact of inflation and the effect of enterprise bargaining agreements on the 2002/03 budgets. These calculations show that rate increases of 8.3% in New Benalla and 7.44% in New Mansfield are necessary to fund existing services in 2002/03.<sup>31</sup> These increases would be in addition to the increases required for separation. Additionally, the VGC has advised that the additional funds likely to be available to both municipalities in the future will not come into effect until 2003/04. A further rate increase will be required to compensate for this delay in additional funding.

<sup>31</sup> Dobrzynski, R *Correspondence to Panel* 5 July 2002

155. In Section 4, the Panel compared current Delatite rates (rates and charges per assessment) with the median for the state and the median for the benchmark group of large shires. As previously mentioned, both proposed entities will be classified as small shires by the Local Government Division. The Panel therefore compared the proposed rates for the new shires with the median rates for small shires. New Benalla will have a median rate of about \$721 per assessment and New Mansfield will have a median rate of about \$750, compared with the median for small shires of \$621. So while Delatite rates are low in comparison with its benchmark councils, both New Benalla and New Mansfield will have high rates in comparison with their benchmark group of councils.

## **SECTION EIGHTEEN: ASSETS AND LIABILITIES**

156. This section:
- defines Delatite’s assets and liabilities
  - recommends the principles to be used in dividing Delatite’s assets and liabilities that are fair to both New Benalla and New Mansfield, and
  - recommends a process to be followed in dividing the assets and liabilities that is fair to both New Benalla and New Mansfield
157. There are two types of assets and liabilities – those that are immovable and those that are movable. Immovable assets attach to a particular geographic area. They include :
- land, land improvements, buildings, roads, bridges and drains
  - investment in the High Country Regional Library
  - rates receivable (and some other receivables)
  - the Benalla Art Gallery, together with the gallery’s collection, and
  - funds invested to meet location specific reserves
158. Immovable assets should be transferred to the municipality that controls the geographic area in which the assets are located and the transfer should be made without reference to the relative values of the assets involved.
159. Immovable liabilities include:
- loans for the acquisition of immovable assets
  - any other liabilities that attach to immovable assets
160. The transfer of immovable liabilities should be made to the municipality that controls the geographic area in which the liabilities are located and should be made without reference to the value of the liabilities involved.
161. Movable assets are all those that are not immovable, and include:
- cash, investment of unrestricted funds and some receivables
  - office furniture and equipment, movable plant and machinery, motor vehicles, and inventories of consumables, and
  - funds invested to meet employee entitlements

162. Movable liabilities are those that do not attach to immovable assets. They include payables and liabilities for the acquisition of movable assets, those incurred for general council operations and liabilities for employee entitlements.
163. At separation date, the market value of net movable assets and liabilities should be calculated.
164. At separation date the monetary value of each new council's entitlement to Delatite's net movable assets and liabilities should be calculated.
165. New Benalla's proportionate entitlement to the monetary value of net movable assets and liabilities should equal the proportion of rate revenue generated in the north of Delatite in 2001/02. New Mansfield's proportionate entitlement should equal the proportion of rate revenue generated in the south of Delatite in 2001/02.
166. For the purposes of dividing movable assets and liabilities at separation date, relative rate revenues generated in the period from 1 July 2002 should be ignored (because these relativities are likely to vary significantly from those of 2001/02 and prior years).
167. Irrespective of the principles summarised above, a financial adjustment should be made at separation date if the relative benefits of cash outflows in the period from 1 July 2002 do not approximate the relative rate revenues generated in the north and south of Delatite.
168. The Panel considered the following other possible ways of dividing movable assets and liabilities, but decided that they were not appropriate in Delatite's case:
- On the basis of resident population
  - On the basis of total population
  - On the basis of resident population plus non-resident ratepayers
  - On the basis of the number of ratable properties
169. On separation date, all contingent liabilities should be identified (to the extent possible). The two new municipalities should agree on how those liabilities are to be extinguished in the event that they become actual liabilities at some time in the future.
170. The Panel recommends that the following separation process should be followed.
- During the period prior to separation, the two Community Councils should agree on the physical distribution of all movable assets on separation date and should agree on the value of those assets
  - During the month before separation, Delatite should convert into cash as many of its unallocated realisable movable assets as possible, and should liquidate as many of its unallocated movable liabilities as possible
  - On the day before separation, Delatite should conduct a physical inventory of all consumables
  - On separation date, New Benalla should take over all remaining movable assets and liabilities (i.e. all those that have not already been allocated to one of the new

municipalities), and should pay to, or receive from, New Mansfield a cash amount that reflects the difference between New Benalla's entitlement to Delatite's movable assets and liabilities and what it actually received

- After separation, the organisation appointed to conduct the due diligence audit should provide an opinion to the two new councils on the extent to which the above principles and processes have been followed, and on the fairness of the actual separation result.

171. The Panel discussed the above recommendations with members of both Community Councils. Members of these councils expressed general agreement with the recommended principles and process.

## **SECTION NINETEEN: SENSITIVITIES**

172. When assessing the feasibility and viability of dividing Delatite into two municipalities, the Panel had to make numerous assumptions relating to the new councils' future, such as:
- service levels
  - staffing
  - operating income and expenditure, and
  - infrastructure spending
173. On a number of occasions when developing assumptions and assessing options, the Panel faced the dilemma of having to decide, from several potential alternatives, which assumption or option would be the most appropriate. In such cases, the Panel selected the alternative:
- that was fair to both parties
  - that was the most likely operating outcome, and, most importantly,
  - that resulted in the most cost effective outcome for both municipalities
174. The Panel recognised that this approach would probably result in models of the two councils that represented a "best case" (i.e. least cost) scenario. That is, it is highly unlikely that, in practice, the two councils will be able to operate at levels that are any more cost effective than those shown in Section 15 and Attachment 4.
175. The following issues that are not reflected in the operating outcomes shown in Section 15 and Attachment 4 came to the Panel's attention during its review.
176. The Panel is of the view that staff numbers in New Mansfield are the minimum needed to deliver about the same level of service as at present. The Panel believes that even with no increase in service levels, staff (or contract equivalents) may have to be increased by at least 1 EFT in the short-term. This could add about \$40k to the annual cost of operating New Mansfield.

177. Based upon its own observations, the Panel is of the opinion that Delatite's current staffing level in finance and information technology is not sufficient to provide optimum service to users. The New Benalla staffing model assumes no effective increase in these areas. The Panel believes that both external and internal pressures will be such that a future increase in staffing will be needed at an annual cost to New Benalla of about \$50k.
178. While New Mansfield will be one of Victoria's smallest municipalities, it will still have to provide professionally competent services to its community. Thus the salaries of its management and supervisory team must be set at levels that will attract and retain professionally competent people. In the Panel's opinion, the salary structure proposed for New Mansfield is at a minimum acceptable level. The Panel believes that in the near future it is probable that the new council will have to increase its salary scales to attract appropriately qualified personnel. For the purposes of this exercise, an additional annual cost of \$50k has been allowed.
179. The Panel examined all of Delatite's significant contracts with external parties. It noted that a number may extend beyond separation date and that some contained terms that are favourable to Delatite. In the event that the same terms cannot be negotiated for the new municipalities, some increase in operating cost may be expected. The Panel, however, has not attempted to quantify the financial impact, if any, of contract re-negotiations.
180. In estimating the one-off costs of establishing the two new municipalities (\$1 million), the Panel included an amount of \$121k to cover unidentified contingencies. The Panel, however, believes that this sum may still not be sufficient and that additional costs of \$100k may well be incurred (particularly for office accommodation in New Mansfield and for consultants and contractors to establish accurate records for the new municipalities). Any cost overrun would be financed by additional borrowings. The annual cost of servicing additional borrowings of \$100k would approximate \$24k – with the cost shared equally between the two new councils.
181. The Panel has not provided for any increase in the current levels of service in either New Benalla or New Mansfield. Based on community comments contained in the O'Brien report, there is a distinct possibility that New Mansfield residents will be expecting an improvement in service levels in their new municipality. This, of course, would result in additional cost for New Mansfield. The Panel, however, has not attempted to confirm service deficiencies nor the cost, if any, of rectification.
182. The income/expense models for the new municipalities (Section 15 and Attachment 4) assume that the two capital improvement programs would be maintained at 2001/02 budget levels. The models show that New Benalla would have the capacity to increase its capital expenditures significantly without any additional ratepayer contribution. However, the same would not be the case for New Mansfield. Each \$38k increase in capital expenditures would require a one percent increase in rates.



183. In developing its income/expense models, the Panel obtained from the VGC the dollar value of local roads and general grants to which the new municipalities would be entitled. The Mansfield Community Council advised the Panel that it would be asking the VGC to review its calculations. A review, if any, may or may not, result in a change in New Mansfield’s entitlement. The Panel has not provided for any change.
184. Most of the sensitivities summarised in the above paragraphs have a greater impact on New Mansfield than on New Benalla. As New Mansfield’s rate base is low it is more vulnerable to cost increases than New Benalla. The following table summarises the potential impact of those sensitivities that the Panel attempted to quantify (in \$’000).

<b>Estimate of the Value of the Panel’s Sensitivity Analysis</b>		
<b>Sensitivity</b>	<b>New Benalla (\$’000)</b>	<b>New Mansfield (\$’000)</b>
Staff numbers	50	40
Salary scales		50
Extra borrowing costs	12	12
Total	62	102
As % of 2001/02 budgeted rates and charges	1.2%	2.7%

**Table 17:** Showing possible additional costs that may be incurred by New Benalla and New Mansfield during and post separation

## **SECTION TWENTY: OTHER ISSUES**

185. A range of other issues arose in the course of the Panel’s enquiries and these are outlined below.
186. *Election costs.* The cost estimates shown in Section 15 above do not include any allowance for elections. As 2003 is an election year for Delatite, and hence for New Benalla and New Mansfield if separation goes ahead, both new shires will need to budget for these real costs in the coming financial year. This expense is treated in different ways in different municipalities. Some amortise the cost over three years. Other reduce the amount available for capital expenditure in the year of elections. As this has been the traditional approach in Delatite, no specific allowance was made in the proposed budgets for this item of expenditure. However, the cost in 2003 is estimated by the Shire to be \$67k in New Benalla and \$57k in New Mansfield.
187. *Property sales.* The Panel enquired about property sales over the last 18 months to ensure that any realisation of assets did not unfairly benefit one or other end of the Shire. There

have been seven properties sold in that time, all in the north of the Shire. The sales realised about \$175k. The Panel was advised by the CEO, Delatite Shire, that the Council's approach to the distribution of funds from the sale of properties has historically been to allocate the funds for expenditure in the respective location of the Shire (i.e. north or south).<sup>32</sup>

188. *Debt redemption.* The Panel also enquired about the nature of debt redemptions over and above scheduled loan repayments and was satisfied that there had been no inequitable redemption of debt in the past eighteen months.
189. *Tolmie boundary.* A submission from a resident was made to the Panel regarding the boundary in the vicinity of the Tolmie township. If the Shire is separated along the line of the previous boundary, a number of Tolmie properties will be in New Benalla and others in New Mansfield. The submission proposed that the boundary between the two proposed shires should be drawn such that all these properties are in New Mansfield. While this proposal appears to have merit, the Panel was not in a position to consult the individual property owners about the proposal and therefore recommends that this suggestion is given further consideration by the Council and a recommendation made to the Local Government Division after Tolmie residents have considered the issue.
190. *Waste and the Mansfield tip.* In the course of its consultations with key groups, the issues of the Mansfield tip and the cost of transporting waste from Mansfield to Benalla were raised. Currently, Mansfield tip only takes hard, not putrescible, waste. All putrescible waste is transported to Benalla. The Panel consulted the Environment Protection Authority (EPA) for advice on this matter. The EPA advised that the Mansfield tip was not suitable for depositing putrescible waste and substantial changes through a works approval and licensing process would be required to allow this. The risks involved in, and the cost implications of, such a change would be very substantial. The Panel consequently did not accept suggestions made to it that New Mansfield costs could be reduced through using the Mansfield tip for putrescible waste.
191. *Economic development.* The Delatite Shire spends considerable resources on economic development, employing two staff in combined tourism/economic development roles. In recent years, the Shire has been affected by poor snow seasons and low levels of water in Lake Eildon. More recently, the difficulty experienced by some adventure tour operators in obtaining insurance has also been of concern. While these matters do not directly impact on the proposed separation, the Panel considered they warranted mention. If these matters have a prolonged impact on tourism, the impact on the economy of New Mansfield, in particular, may be significant and may impact on the rate base of the proposed shire.
192. *Names of the proposed shires.* During the course of the Panel's review, the proposed shires were referred to as New Benalla and New Mansfield. This appears to have resulted in an unstated assumption within the Delatite community that, if separation proceeds, the new shires will be named Benalla and Mansfield. However, these are the names only of

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<sup>32</sup> Dobrzynski, R *Correspondence to Panel* 5 July 2002

the key towns within the proposed entities. In naming other municipalities, use of the names of major centres has largely been avoided and names have been chosen that reflect the totality of the municipality in question. The Panel is of the view that this same principle should be applied to New Benalla and New Mansfield and new names sought that encompass all areas of the proposed shires.

- 193 *Audit issues.* The Panel met with both the internal and external auditors in order to ascertain whether there were any outstanding matters that might impact on the proposed separation. The Panel was informed that the Shire has not acted on the recommendations of the last two internal audits. However, the Shire has now advised that it will act on these matters by December 2002. The Panel is also aware of a pending audit of the Benalla Lakeside Sports Centre by the Auditor-General. The Panel tried but was unable to secure a meeting with the Auditor-General. The methodology for the split of assets and liabilities proposed in Section 18 takes into account the possibility of contingent liabilities such as these.

## **SECTION TWENTY-ONE: TRANSITION PROCEDURES**

194. The Panel sought advice from the Local Government Division's Governance and Legislation group on the procedures required to effect separation. The group advised as follows.
195. Under the provisions of the *Local Government Act 1989*, there appear to be two ways in which the existing Delatite Shire Council may become 2 separate municipalities:
- Option 1: Order in Council to abolish Delatite (*s.220Q(f)*) and Order in Council creating 2 new councils – New Benalla and New Mansfield (*s.220Q(e)*)
  - Option 2: Order in Council to alter the boundaries of Delatite by removing an area from the existing to create the second municipality (*s.220Q(a)*)
196. In either case, the Order in Council would have to contemplate the following:
- who will be successor in law of assets and liabilities?
  - staff issues
  - administration of the municipalities until elections are held
  - boundaries
  - transitional provisions regarding rates and services
  - dates for elections
197. The Local Government Act provides very broad powers with respect to the making of a Restructuring Order and therefore all issues should be able to be dealt with once they are identified.
198. The matters which may be provided for in an Order in Council include the following:
- any property, income, assets, rights, liabilities, expenses or other matters to be apportioned, settled, transferred, adjusted or determined

- the appointment, transfer, redundancy or classification of Council staff and any matters relating to the remuneration and emoluments of such staff including superannuation and long service leave
  - the appointment, conditions of appointment and the powers and functions of any persons appointed to administer a new or re-constituted Council until an election is held
  - existing Councillors to go out of office and the election of new Councillors to be elected in the numbers, for the wards and the terms specified in the Order
  - the holding of elections having regard to the provisions of this Act and the regulations dealing with enrolment for and voting at Council elections and the election of Councillors, with such modifications as may be specified in the Order
  - the application, continuation, amendment or revocation of existing local laws
  - transitional provisions in relation to any act, matter or thing done or required to be done by or in relation to any Council affected by the Order in Council
199. If an Order in Council provides for the appointment of persons to administer a new or re-constituted Council until an election is held, those persons by virtue of the Act:
- are deemed to be the Councillors of the Council and together to constitute the Council as Councillors; and
  - have and may exercise and discharge the responsibilities, liabilities, rights, powers, authorities, duties and functions conferred or imposed upon:
    - a Council or a former Council by or under any Act
    - Councillors generally or upon the Councillors of a former Council by or under any Act
    - the persons so appointed by the Order in Council.
200. Legal advice was received to the effect that should New Benalla, for example, be designated the successor in law to Delatite Shire, it would be necessary for New Mansfield to continue to participate with any contracts, e.g. waste collection.
201. The Panel takes the view that Option 1 would give a sense of a “clean break” by doing away with the existing Council and creating two new Councils. This scenario is likely to be the one anticipated by the community, even though both options would, in effect, create the same result. In the eyes of the community, it may be perceived as creating two new entities with as near equal status as is achievable in the circumstances. The Panel therefore recommends that Option 1 is followed in the establishment of New Benalla and New Mansfield.

## **SECTION TWENTY-TWO: CONCLUSIONS**

202. In establishing this Panel, the Minister requested the Panel to examine:
- the cost of the proposed shires
  - the staffing structures required
  - the distribution of assets and liabilities
  - the soundness of the proposal for the two proposed shires to share resources

- the methodology for the calculation of resource-sharing charges between the proposed shires
  - the impact on service delivery of the proposed separation
  - the capacity of the proposed shires to maintain and renew infrastructure
203. The Panel has considered all these matters in the course of its review and the following paragraphs set out its conclusions.
204. The Delatite Shire can be separated into two new shires at a minimum cost of 0.1% rate the separation, the Panel considered a range of possible income and expense items which may result in a variation to these rate increases. The Panel treated these as contingencies and takes the view that the cost of separation will fall within the range 0.1%-1.3% for New Benalla and 16.8%-19.5% for New Mansfield. These rate increases are based on 2001/02 figures and are solely for the cost of separation. They do not include any allowance for wage increases and normal inflation, which the Shire estimates will be up to 8.3% for 2002/03. Nor do they include any allowance for the fact that increased VGC funding will only come into effect from July 2003.
205. Recommended staffing structures were developed for both proposed shires in conjunction with senior management at Delatite. These were based on the original Framework submitted by the Council but amended to add some additional positions and further amended when the Council advised it wished to reduce the amount of resource sharing originally proposed. The final proposed staffing structures have been agreed with senior management and allow for 91.0 EFTs in New Benalla and 64.6 in New Mansfield. The Panel is of the view that this level of staffing will allow the maintenance of current service levels but will not provide for any improved service levels.
206. The Panel also reviewed the salary levels of all positions as it is important that both proposed shires have the capacity to attract capable staff.. The Panel took the view that a number of the proposed salaries, particularly in New Mansfield, were too low. The Panel recommended a range of increases in these salary levels and these have been incorporated in the final staffing models.
207. The Australian Services Union was fully consulted during the course of the review. No staff member will be disadvantaged by the proposed separation.
208. The Panel devoted much attention to the split of assets and liabilities as this will have a major impact on the operating capacity of the proposed shires. The Panel has developed a detailed model for the split of assets and liabilities and recommends this be implemented immediately prior to separation.
209. The Council's proposal to share resources was scrutinised during the review. Originally, the Council had proposed resource sharing in finance, engineering design and supervision, environmental health, forest services and community services. This proposal was amended by the Council several times during the course of the review and the final proposal was to share resources only in community services. As community services

already operates on an integrated management model with staff split geographically in Benalla and Mansfield, the resource sharing proposal would effectively have minimal impact on this area of operations. There are advantages in continued joint operation that arise from maintenance of scale in staffing and management and the Panel supports this approach.

210. The Panel reviewed the documentation prepared to support resource sharing. This comprises a Resource Sharing Agreement setting out the legal framework for the arrangement and a Service Level Agreement detailing the scope of services to be provided and the performance standards to be met. These documents are still in draft form and require some further development to meet the needs of both proposed shires. Detailed recommendations for amendment are contained within the body of this report.
211. As a consequence of the resource sharing proposal, it is appropriate that New Mansfield pay for management and administrative costs incurred by New Benalla in providing these services on New Mansfield's behalf. The Panel considered a number of different ways of calculating a charge for these corporate overheads that was fair to both parties. It also enquired about the charge operating in a number of other similar arrangements. The Panel believes that a 15% overhead charge on the direct cost of providing the resource shared services is appropriate.
212. The Panel gave significant attention to the impact of separation on the services provided to the community. As many services are already provided on a split geographical model, the Panel took the view that the impact on direct service delivery would be minimal. The major impact of the separation would be in corporate support services and at management level. The Panel addressed these matters in the alterations it made to staffing and now takes the view that service levels can be maintained in the new shires. Having said that, it should be noted that service levels are already at a very basic level and no allowance has been made for any service improvements. Staff expressed some concern about this fact as they took the view that the community would be expecting service improvements as a consequence of separation and significant rate increases. The Panel considers it important that the proposed new councils communicate to their communities the level of service that will be available.
213. The Shire does not currently have an asset management strategy and therefore it was not possible for the Panel to determine the extent of the gap in the funding of asset renewal and replacement. Currently, Delatite spends well below the State average and well below that spent by similar shires on capital works. It may therefore be assumed that Delatite is not currently keeping pace with the renewal of its infrastructure. Under the proposed rate increases, New Benalla will have a significantly increased surplus available for capital expenditure. If it preserves these funds for capital over several years, the community will benefit significantly from improvements to its infrastructure. The proposed rate increases do not provide for any additional capital expenditure in New Mansfield. Given that Delatite is currently under spending on capital, the community of New Mansfield will need to consider further rate increases if it wishes to maintain and renew its asset base.

214. The Panel took account of a range of other matters which are commented on within the report. These include:
- Sociological, demographic, topographic, economic and employment factors
  - Sustainable economic development
  - Administrative, financial and rating impacts
215. Of significance are the demographics of the area. The resident population is smaller than reported in a number of other documents. This has an impact on the way the VGC calculates its allocation of funds and hence has an impact on the incomes of the proposed new shires. Demography is also important as the population of New Benalla and New Mansfield is characterised by a higher than average proportion of elderly people and a higher than average proportion of low income people. This suggests the community has limited capacity to carry significant rate increases. Rates are also of concern to farmers as they constitute a significant item in the farm budget.
216. The Panel obtained legal advice as to the means by which the proposed shires might be created. The Panel is of the view that the cleanest and least controversial method is for Delatite Shire to be abolished and for two new municipalities to be created by an Order in Council under s.220 of the *Local Government Act 1989*.
217. Prior to the submission of this report, the Panel met with the Delatite councillors to discuss the main findings of this review. The Panel is pleased that the estimated budgets for the the proposed new shires, the split of assets and liabilities and the estimation of corporate overheads contained in this report have the broad agreement of the councillors and senior management team at Delatite Shire.
218. In the event of separation, this report will provide guidance during any period of administration and during the period immediately following the election of new councils.