

Response to ‘Supplementary questions: Associate Professor Roberta Ryan, UTS:CLG for the General Purpose Standing Committee No. 6 Inquiry into local government in New South Wales.

General comments:

First, the evidence-based nature of all of the supplementary questions highlights the gap between processes of inquiry and reform in Australia generally on the one hand and the evidence available on the other (which in this case is substantial).

For instance, question 4 (below) – ‘Are there any economies of scale for larger councils? If so, what are they?’ – is addressed extensively in the literature. By way of response, I am not in a position to provide a summation of this literature. However, I can direct the Inquiry to relevant selections from the literature and make the general observation that the assumption that economies of scope and scale can always be accrued by increasing the size of any unit of production is significantly tempered in the local government context, by two factors:

- For local government (indeed any government) optimal outputs are, decidedly, not determined by factors of supply and demand. On the contrary, they are the result of political processes. This does not imply that the cost of services does not have any bearing on what is provided. However, other factors are taken into consideration;
- In turn, any calculation of scale (and scope) economies is influenced by the parameters of service provision that are necessarily specific to the local government area: In essence, different LGAs have different service requirements; thus one size does not fit all.

Second, the juxtaposition between *forced* mergers on the one hand, and *voluntary* mergers on the other hand, while rhetorically convenient, is somewhat of a misnomer. A better way of thinking about the distinction is between top-down amalgamations – those conducted by governmental and ministerial fiat – and those that are undertaken through a process of substantive consultation, in particular with the option for negotiating what the eventual outcome will look like.

It might sound like I’m ‘splitting hairs’, but the difference in the quality of the process is crucial.

For instance, in his paper: ‘From convergence to divergence: Reforming Australian local government’, Chris Aulich (1999, p. 16-17) distinguished between NSW, Queensland and WA, which continue to work collaboratively with local government and retain a high commitment to local democracy, and Victoria, SA and Tasmania, where economic efficiency has supplanted local democracy’.

Some 15 years on, Queensland and NSW have now clearly joined the ‘economic efficiency’ group. In Queensland, on the recommendation of the Queensland Reform Commission’s (2007) ‘Final Report’ State Parliament passed into law the amalgamation of 157 councils into just 73 organisations ‘*in the early hours of 10 August*’ (Dollery, Ho and Alin 2007). In answer to the question ‘Why does this matter?’, look at Queensland politics since: There has been widespread disaffection with state *and* local government (the wholesale routing of both the Bligh and Newman Governments, in 2012 and 2015, respectively) disaffection with local

government generally – as demonstrated by declining voter turnout *despite compulsory voting* (see Grant, Dollery and Kortt 2015) and some de-amalgamations (see, for example, Drew and Dollery 2014).

In considering the idea that in NSW the process has been conducted with adequate consultation – for example, ‘Destination 2036’ and the consultative activities of the ILGRP (2012-13) and IPART (2015) might be thought about differently given that the councils were given 30 days to design and submit their preferred options for ‘Fit for the Future’ to IPART. I would suggest that, in essence, any atmosphere of consultation has been damaged by this timing.

However, this does not imply that successful amalgamations can – and in fact have – occurred. The reform processes that occurred in Queensland 1990s and in NSW in 2004 are examples of this. In NSW, for example, a number of other collaborative arrangements were born out of these processes. Some were highly successful – The Wellington Blayney Cabonne and Central Tablelands Water Strategic Alliance (WBC SA). Others were not – arguably *precisely because* they were undertaken in a technocratic manner (see the account of the New England Strategic Alliance of Councils (NESAC) in Dollery, Grant and Kortt 2012, pp. 197-207). See also the examples in the ACELG (2011a; 2011b) Reports ‘Consolidation in Local Government: A Fresh Look’, and ACELG’s (2012) Report ‘Legal and Governance Models for Shared Services in Local Government’.

I now address your specific questions in turn:

1. *You stated: “I think the evidence shows that it is entirely advantageous not to force amalgamations. I think that reform that occurs in a voluntary way...provides better outcome”. Can you please provide this evidence?*

I refer you to my second point (above). See (in particular):

- ACELG [Australian Centre of Excellence for Local Government]. (2012). ‘Legal and governance models for shared services in local government’. Interim Report May 2012.
- ACELG [Australian Centre of Excellence for Local Government]. (2011a). ‘Consolidation in Local Government: A Fresh Look’. Volume 1: Report; May. ACELG (2011b). ‘Consolidation in Local Government: A Fresh Look’. Volume 2: Background Papers; May.
- Dollery, Grant and Kortt (2012). *Councils in Cooperation: Shared Services and Australian Local Government*. Sydney: Federation Press.

All of these references are provided in the list at the end of this document.

In my view if state governments want to amalgamate LG – they need to go out and prosecute the case. Run the public arguments, put the case – educate the communities – articulate the benefits. It has done in Christchurch and can be done if the investment in bringing communities alone is made.

2. *What is the ratio of forced to voluntary mergers in the last 20 years in each State in Australia?*

Again, see my second point above. Strictly speaking, the only recent voluntary amalgamation has been that of the City of Greater Geraldton (WA). See the references in response to (1) for a discussion of Geraldton and – most importantly – examples of collaborative arrangements, including (but not limited to) shared services. See also Grant, Dollery and Westhuizen 2012) for the forensic detail of this particular example.

3. *Why have so few voluntary mergers been achieved?*

As stated above, the delineation between ‘forced’ and ‘voluntary’ is somewhat of a misnomer; nevertheless there are examples of successful amalgamations and collaboration. See the examples discussed in the literature discussed at (1).

4. *Are there any economies of scale for larger councils? If so what are they?*

Not definitively. In fact, quite a lot of empirical work has been published investigating this question in relation to the claims made by the ILGRP (2013) and subsequently by the Government. It is important to emphasise that this work has been published in some of the best journals in public administration both nationally and internationally and as such has been subject to rigorous peer-review (unlike, for example, reports produced by consulting firms and individuals).

Two examples will suffice. I reproduce the abstracts of the articles for your perusal:

- Drew, J., Kortt, M. and Dollery, B. E. (2014a). ‘Economies of scale and local government expenditure: Evidence from Australia’, *Administration and Society* 46(6): 632-653.

Abstract: Controversy surrounds structural reform in local government, especially efforts aimed at involuntarily reducing the number of local authorities to secure scale economies. We examined whether scale economies exist in local government outlays by analyzing the expenditure of 152 New South Wales councils. Initially, council expenditure is characterized by scale economies. However, given the correlation between population and population density, it is important to determine whether the influence of population on expenditure is due to variations in population density. When areas are decomposed into subgroups on the basis of density, the evidence of scale economies largely disappears.

In essence, according to this particular study, population density, not aggregate size, makes a difference to efficiency. Again, I refer you to my first general observation (above).

Drew, J., Kortt, M. and Dollery, B. E. (2015). ‘No Aladdin’s Cave in NSW? Local government amalgamation, scale economies and data envelopment analysis [DEA] specification’. *Administration and Society* (online first).

Local government structural reform programs are often based on the purported benefits of increased scale. We examine this question in relation to the proposed amalgamation program for New South Wales (NSW) by the NSW Independent Local Government Review Panel using Data Envelopment Analysis (DEA). *We find evidence that a significant proportion of municipalities scheduled for amalgamation already exceed optimal scale and that the great majority of “amalgamated” entities will initially exhibit decreasing returns to scale.* Our findings thus stand in stark contrast to the Independent Local Government Review Panel (ILGRP) contention that municipal mergers are the optimal approach to capturing economies of scale in NSW local government (emphasis added).

The evidence, again, *for this particular study utilising this particular econometric technique*, finds against the assertions in ILGRP (2013). Again, none of this evidence is definitive.

Nevertheless, the bulk of contemporary evidence finds against the assertion that economies of scale do not exist in scenarios of amalgamated councils.

It is likely the wrong question. Strategic capacity – i.e. the enhanced capacity for dealing with complexity is enhanced by scale. But this is only likely in the ‘middle band’ i.e. for councils that are very small in urban areas.

5. What evidence is there that merges lead to higher rates?

A comprehensive survey of rates *post* amalgamation programs in Australia – or indeed elsewhere – has not been undertaken. However, anecdotal evidence from the last (radical) round of amalgamations in Queensland saw rates increase of 3.1 per cent from 2006/07 to 2009/10 (Drew Kortt and Dollery 2014b, p. 12).

Again, however, I stress that there is no definitive evidence that amalgamations inevitably lead to higher rates. What is seen often is that if two councils merge with different rate levels – the newly amalgamated area will likely continue with the high rate base rather than have the rates drop to the one with the lower rate base. This can be easily explained as most council don’t charge high enough rates (particularly in NSW due to rate capping) nor do they not use their borrowing capacities enough.

6. If rates are higher post merge is there any data about why this is the case?

Please see (5) (above).

7. Is there a difference in resident satisfaction levels for larger versus smaller councils?

I am not aware of research on this – although it would be possible to do. It would be important to control for other factors which influence satisfaction such as service levels, effective community governance etc.

8. What are the advantages of voluntary mergers?

See my second general point (p. 1 above).

9. What are the disadvantages of voluntary mergers?

See my second general point (p. 1 above).

10. What are the advantages of compulsory mergers?

See my second general point (p. 1 above).

11. What are the disadvantages of compulsory mergers?

See my second general point (p. 1 above).

References

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