

**Supplementary  
Submission  
No 132a**

**INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH  
WALES**

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**Date received:** 24/07/2015

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## **Submission to Legislative Council GPSC6: Inquiry into Local Government in New South Wales**

### **Summary Points**

- This submission reflects the final report of the Independent Local Government Review Panel (ILGRP): *Revitalising Local Government*. The ILGRP's findings were largely consistent with those of the 2003 report on *Local Government Amalgamations* by the Legislative Council GPSC5.
- The Government's 'Fit for the Future' (FFTF) agenda adopts to varying degrees many of the measures proposed by the ILGRP. However, there are some significant departures.
- The ILGRP conducted an exhaustive, evidence-based inquiry. It reviewed hundreds of previous reports, published papers and detailed submissions; commissioned several pieces of new research; and undertook three rounds of consultation across the State. Nowhere did it make a simplistic claim that 'bigger is better', nor did it advance 'one-size-fits-all' models.
- The evidence on the matters before the Committee is mixed. Many academic papers and consultancy reports rely on statistical analysis and modeling of questionable relevance and value (an example is provided in the submission by Ms Jude Munro). There are very few rigorous 'before and after' assessments of mergers. Judgements about specific reform proposals must be made 'on balance' taking into account all relevant factors and with full community consultation.

### **ILGRP Proposals**

- The ILGRP was required to take a **long-term view** – at least until 2036. Its goal was to enhance the 'strategic capacity' of both individual councils and local government as a whole. It favoured a mix of some **staged** amalgamations plus greatly increased regional cooperation.
- The ILGRP proposed a broad package of reforms, and emphasized that progress must be made simultaneously on a number of fronts. It argued that further consideration of any amalgamations should be **preceded or accompanied** by essential improvements to local government revenues, financial and asset management, regional cooperation, democratic governance and State-local relations.
- The ILGRP's 'preferred options' for mergers covered only 61 of the 144 councils since required to submit a FFTF proposal. A new 'Rural Council' option was canvassed for 11 councils. Ten of those might otherwise have been 'preferred' for mergers.
- Contrary to the claims of its critics, the ILGRP did **not** rely primarily or in many cases at all on 'economies of scale' or 'cost savings' arguments for amalgamations. It focused instead on the broader concept of 'strategic capacity'. Nor did the ILGRP suggest that amalgamations would be a panacea for the financial problems facing many rural and remote councils.
- The ILGRP emphasized the importance of increased resource sharing between councils, specifically through the establishment of **mandatory** Joint Organisations (JOs) that could undertake a wide range of functions on behalf of their members. In non-metropolitan areas this may be an alternative to amalgamations, **provided** JOs are used to maximum advantage.

## Amalgamation Process

- The ILGRP commissioned research on the process and outcomes of the 2004 amalgamations in NSW, and also examined systems in place in other States and New Zealand.
- An improved statutory process (ie provisions in the Local Government Act) would, amongst other things, offer a way to resolve ongoing arguments about 'forced' vs 'voluntary' amalgamations. In practice, the distinction is not at all clear.
- On that basis, the ILGRP recommended substantial changes to the way amalgamation proposals are formulated, reviewed (including community consultation), determined and implemented. (GPSC5 also emphasized this point.) This improved process should include establishing a reconstituted, more independent and better-resourced Boundaries Commission. However, the Government rejected these recommendations.
- The Government has suggested a 'streamlined' process with a view to encouraging 'voluntary' mergers. This carries the risk of reduced scrutiny and community consultation (as noted by GPSC5 in 2003).

## Fit for the Future Agenda

- There is much to commend in the FFTF agenda. However, it focused largely on the financial sustainability and performance of *individual* councils rather than the *system* of local government as a whole. Also, it gave the impression that amalgamations were to be the dominant instrument of reform.
- Regrettably, the Government has yet to finalise related policy reviews, and outcomes will not be known until well into 2016. As a result, it appears that councils' FFTF submissions will have to be evaluated without an adequate framework of clear objectives and policies.
- FFTF also substantially weakened the ILGRP's recommended approach to the establishment and role of regional Joint Organisations, and the JO pilots will not be completed until 2016.
- FFTF correctly highlighted 'scale and capacity' as the key criterion, but muddied the waters with a series of purely financial indicators and benchmarks. This has generated unnecessary debate and confuses short-medium term 'budget repair' with *long-term* sustainability and capacity.

## Other Key Issues

- The ILGRP examined a combination of factors affecting the sustainability of councils. It concluded that *without changes* many councils are 'at risk' in the *medium-long term*.
- Financial sustainability is just one element – albeit critical – of a council's overall sustainability. This also includes the components of 'strategic capacity', notably the quality of governance and management, skills in strategic planning, and involvement in regional cooperation and resource sharing.
- Despite claims made by some, there is in fact very little definitive evidence on the costs, benefits and impacts of amalgamations. The ILGRP found no conclusive evidence to support the dire consequences often predicted, or to show that the outcomes of 'forced' amalgamations are *necessarily* worse than those of 'voluntary' mergers. It all depends on a sound process and careful case-by-case analysis. The ILGRP concluded that, properly planned and implemented, amalgamations could deliver substantial benefits despite the inevitable disruption and costs involved in the early years (see, for example, Dr Ian Tiley's study of Clarence Valley Council).
- A thorough examination of the rating system in NSW is essential, regardless of whether amalgamations are pursued.
- The impact on rates should not be a 'make or break' factor when considering amalgamations. There is no conclusive evidence that amalgamations per se increase the **total** amount of rates required. In fact, amalgamations offer an opportunity to overhaul rating systems that have not

been thoroughly reviewed for decades, and to improve equity between different groups of ratepayers.

- It is very important that community identity and local democracy are maintained when amalgamations occur. This can be a matter of concern, but various well-tested measures are available to achieve the desired outcome. (Again, GPSC5 made a similar finding.)
- Amalgamations are needed in the Sydney region, the Central Coast and the Lower Hunter to improve metropolitan governance, planning and management. Councils can and should play a stronger role, and this requires increased capacity. The alternative is a continuing decline in the status of local government. The case for amalgamations in metropolitan areas does **not** rely on achieving economies of scale or financial sustainability – claims to that effect are a furphy and ignore what the ILGRP actually said.

### **The Way Forward**

- The Fit for the Future agenda needs to be pursued to a successful conclusion. A revitalized and stronger *system* of local government is in the best long-term interests of ratepayers, taxpayers, local and regional communities and the future wellbeing of NSW as a whole.
- However, several aspects of FTF and the way it is being implemented warrant a 'mid-term review' and adjustments to achieve the best possible results. In particular, the Government needs to move quickly to complete the broader policy and administrative framework identified by the ILGRP as the foundation of effective, long-term local government reform, including establishment of regional JOs and improvements to the legal process for considering amalgamations. This needs to be done before any specific amalgamation proposals are determined (including currently proposed 'voluntary' mergers that are inconsistent with broader strategic objectives). There is no need to rush.

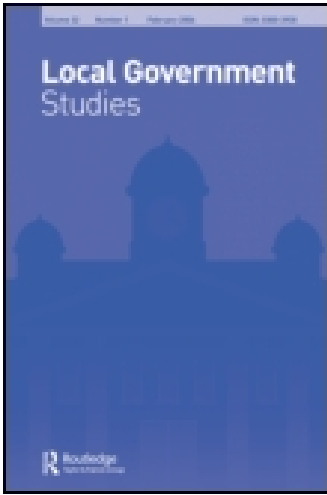
### **Attachments**

In response to other submissions received by the Committee, two journal articles are attached. They offer a broader and different perspective compared to those papers referenced in submissions 3, 3a, 11 and 44 that argue against mergers or larger councils. The second article was written to correct inaccuracies and misrepresentations in a previously published critique of the ILGRP.

Chris Aulich, Graham Sansom and Peter McKinlay. 'A Fresh Look at Municipal Consolidation in Australia', *Local Government Studies* Vol. 40, No. 1, 2014, pp.1-20

Graham Sansom. 'The case for council amalgamations in Sydney: fact and fiction', *Public Money and Management*, January 2015, pp.3-4

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On: 22 July 2015, At: 02:59  
Publisher: Routledge  
Informa Ltd Registered in England and Wales Registered Number: 1072954  
Registered office: 5 Howick Place, London, SW1P 1WG



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## Local Government Studies

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/flgs20>

### A Fresh Look at Municipal Consolidation in Australia

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Published online: 13 May 2013.

To cite this article: Chris Aulich, Graham Sansom & Peter McKinlay (2014) A Fresh Look at Municipal Consolidation in Australia, *Local Government Studies*, 40:1, 1-20, DOI: [10.1080/03003930.2013.775124](https://doi.org/10.1080/03003930.2013.775124)

To link to this article: <http://dx.doi.org/10.1080/03003930.2013.775124>

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# A Fresh Look at Municipal Consolidation in Australia

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**ABSTRACT** *This article draws from a major research project examining the impact of various forms of municipal consolidation in Australia and New Zealand. Its wide-ranging research involved studies of 15 cases of different forms of consolidation, including amalgamation, together with a series of interviews with senior practitioners from the local government sector. Data revealed little evidence of consistent economies of scale from consolidation, however both case studies and interviews indicated that consolidation generated economies of scope and what may be termed 'strategic capacity'. While it was not possible to disaggregate the data for particular sizes of local authority, enhancement of strategic capacity was more obvious through processes of consolidation in larger ones and less so in smaller, more remote ones.*

**KEY WORDS:** Amalgamation, municipal consolidation, economies of scale, economies of scope, Australian local government

## Introduction

A recurrent theme in local government reform in Australia and in many overseas jurisdictions has been the issue of municipal amalgamation and the various benefits which are assumed to flow from it. There have been many commissions and reports aimed at reforming local government in Australia and almost all have had as a major focus the question of optimum size and efficiency and how increased scale might improve efficiency and effectiveness.

The reports of these inquiries, together with the academic research in Australia and internationally, represent a huge body of literature, sometimes contradictory, often heavily focused on economic arguments to the exclusion of other issues – such as the importance of good governance and effective local democracy and representation – and rarely inclusive of any evaluation of the post-reform experience. It is not surprising that proposals for amalgamations or other forms of

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municipal consolidation keep recurring, even though there has not been a robust meta-analysis of the data to give governments more guidance in policy making.

This article has been developed from a collaborative research project designed to take a fresh look at the issue of consolidation in local government in Australia and New Zealand, although this article focuses only on the Australian data. The term ‘consolidation’ was chosen to embrace a wider range of options than just amalgamation that may deliver economies of scale or scope, or other benefits in terms of more effective local government. The research encompassed shared services delivery, various models of regional collaboration, boundary adjustment, and voluntary, forced and failed amalgamations of councils.<sup>1</sup>

The article is presented in six sections. First, we present some key characteristics of Australian local government. This is followed by a brief description of the aspects of consolidation that have been used as a framework for this study. In the third section we outline the research methodology used, which is followed by a section which summarises relevant literature on municipal consolidation. We discuss key findings of the project in the fifth section, before drawing broad conclusions in the last.

The key findings of the research are as follows:

- As a general rule benefits do accrue when local governments adopt mechanisms to consolidate or collaborate with each other.
- There is little evidence that amalgamation necessarily yields substantial economies of scale.
- Efficiency gains can be achieved through various forms of consolidation, but are unlikely to produce reductions in local rates and charges as cost savings are typically deployed elsewhere in the budget.
- Importantly, consolidation offers opportunities to achieve economies of scope or enhanced strategic capacity. This effect may well be strongest in the case of amalgamation into relatively large units.
- In the case of more remote councils with small populations spread over larger areas, consolidation (whether amalgamation or shared services) may not yield advantages in scale or scope.
- Concerns for any diminution of local democracy as a result of amalgamations are muted.
- Underpinning any approach to consolidation is the importance of political leadership, good governance and effective management arrangements, both in managing change and establishing a sound basis for ongoing operations.
- There is a continuing role for state (and national) governments and local government associations in facilitating and supporting consolidation initiatives.
- More attention is currently being focused on the institutional arrangements of the local government system in each jurisdiction rather than on the fundamental issue of the societal functions performed by local government and its changing role.



- More recently, the purposes of consolidation have been articulated as local government capacity building more often than the benefits of economies of scale.

### **Australian local government: a snapshot**

Australia currently has around 560 local councils, representing a dramatic fall since the early 1990s due to extensive amalgamations and/or restructuring of all but one of seven state and territory systems of local government. As a result, the average population of Australian local governments is now about 40,000 – small by comparison with the United Kingdom, but considerably larger than across much of Europe.<sup>2</sup>

However, this masks a huge diversity in size of both populations and geographical areas: there are still about 200 rural and remote councils with populations of less than 10,000, as well as numerous small–medium urban councils (populations below 70,000) in both regional centres and metropolitan areas. We argue that this diversity militates against single policy prescriptions for municipal restructuring.

Australia's systems of local government are spatially, functionally and politically 'mature' in that councils have well-established relationships with their communities, with other organisations and governments, and with each other through regional, state and national associations. This has important implications for processes of consolidation. Also of importance are the legal frameworks for the establishment of local government. Unlike the states and the federal government, local government has no national constitutional basis and is constituted under state government legislation.<sup>3</sup>

For the most part, restructuring of local government has been focused around amalgamation, mostly initiated by state governments in the belief that larger units will be more efficient and effective, better suited to the needs of a modern economy, and better able to deliver services and provide sound governance. Predictions of cost savings, and hence reduced property taxes (rates), have been a particularly common justification for local government amalgamations especially during the 1990s when Australia went through a period of wide-ranging micro-economic reform.<sup>4</sup> However, the extent to which real savings were made remains a matter for debate (McKinlay Douglas Limited 2006, p. 23). Moreover, there is considerable evidence to show that transition costs of mergers are usually much higher, and the extent and duration of disruption to operations much greater, than acknowledged by many advocates of structural reform (see for example Andrews and Boyne 2011).

Of particular significance in this context is the current and prospective financial position of local councils. On average, Australian local government is self-funding to around 80–85%, which matches its relatively limited set of functions.<sup>5</sup>

Nevertheless, some significant financial problems are evident. A series of recent reports (for example IIFS 2006) has highlighted a growing gap between the expansion of local government functions and relatively slow growth in

revenues. In particular, this has led to substantial under-expenditure on asset maintenance and renewal. Moreover, the available evidence suggests that under current policy and financial settings and service expectations up to a quarter of all local governments – chiefly small (in population) rural and remote councils – may not be sustainable into the medium term.

This raises important questions about the extent to which amalgamating rural-remote councils into larger units or increased resource sharing and joint service delivery by those councils could help alleviate financial problems – always assuming that such consolidation and cooperation is feasible given the potentially huge areas and distances involved. At the same time, however, the findings of a study by Australia's Productivity Commission suggest there could be benefits from creating larger urban councils with a more robust revenue base (Productivity Commission 2008).

### **Dimensions of the research problem**

We identified four broad strands in the debate about reform, each underpinned by particular views about the appropriate role of local government.

#### *Economies of scale and cost savings*

Many local government inquiries have asserted that consolidation (particularly amalgamation) will inevitably result in cost savings for local governments, primarily through capturing economies of scale. More often those who support this case argue that the primary role of local government is to deliver efficient services to their communities. As these apparent certainties have been both endorsed and challenged by academics in Australia and overseas we examined the available evidence for this assertion.

#### *Strategic capacity*

In recent years the need or desire to strengthen local government's strategic capacity to play an expanded and more prominent role in the polity has emerged as a key driver of programmes of local government reform. This view of the role of councils requires that they are not just financially robust but also have the skills and resources to be high-capacity organisations with the requisite knowledge, creativity and innovation to enable them to manage complex change (LGRCQ 2007). In this project we considered changes to local governments' strategic capacities, which have been developed as a result of consolidation activities.

#### *Service delivery*

It has often been argued that consolidation would generate improvements in service delivery, although there are few studies which actually examine the post-consolidation experience of those who receive local government services. We sought evidence relating to the question of whether or not there have been

service enhancements or deteriorations as a result of consolidation, although it was beyond the scope of the project to survey service users.

### *Local democracy*

Many researchers have focused attention on potential impacts on the broader roles of local government, beyond service provision, as a consequence of consolidation. They have drawn attention to the quality of local representation and assert that there are increasing difficulties in undertaking effective representation in larger councils. In Australia a range of approaches has been adopted to enhance local democracy through mechanisms such as community councils or boards, precinct or ward committees, improved community engagement and the like, although the development of more far-reaching participatory governance is at a fairly rudimentary stage (Aulich and Artist 2011).

This research project considered whether and how consolidation affects local government's capacity to undertake its representative and democratic roles within the community. This dimension also includes consideration of the effectiveness of local government in representing community views to regional bodies and to state and federal governments – its role as advocate for its communities.

While we focus on these four dimensions of structural reform, we note that there is a broader context for structural reform, one which adds a dynamic to the usual notions of 'before and after' research. In other words, there are changes and tensions in local government which might progress irrespective of the discussion of consolidation and which might have an influence on consolidation policies.

These changes are twofold: first, an increased emphasis on regional and inter-government partnerships can reinforce consolidation policies and raise fundamental questions about the traditional role of local government. Second, changing patterns of local government can be seen as part of a broader move from *government* – the formal functioning of established institutions – to *governance*, engaging a broad range of stakeholders in direction setting and implementation.

In such situations, local governments might develop stronger overall powers in coordinating and integrating social, economic and political life within their communities (Aulich and Artist 2011). This strengthening of local government is also a way of strengthening local democracy, a role where state governments are often seen as having failed (Bailey and Elliott 2009) and which opens discussions about subsidiarity and devolution.

### *Research method*

Data from three *independent* sources was triangulated in order to reduce bias, and enable the researchers to draw their conclusions with more authority where there was intersection between the data sets. Data was drawn from:

1. desk analysis of the literature
2. fifteen Australian case studies of the post hoc experience with various forms of consolidation

3. eight interviews with senior practitioners (both officials and elected members) from the local government sector, only two of whom were interviewed as part of the case study analysis.

We outline the results of our literature review in the next section of the article, and its conclusions are included with data from the case studies and practitioner interviews in the section which follows (the full version of these data sets are at ACELG 2011, Vol 1, pp. 38–61).

#### *Desk analysis of literature*

We reviewed literature generated from reports, academic papers and submissions to enquiries from key stakeholders, focusing on the four dimensions of consolidation identified above. Although the primary focus has been on the Australian context, samples from the international literature, especially relating to other federal jurisdictions, were included. While much of the material was concerned with *ex ante* considerations, involving expected outcomes from consolidation, we took a particular interest in material that examined situations from an evaluation or post hoc perspective.

#### *'On ground' case studies*

As policy overload or 'hyperactivism' becomes more typical of modern governments (Dunleavy and O'Leary 1987), governments show more interest in announcing initiatives rather than in programme evaluations ('initiativitis', according to Stoker 2000); consistent with this, there have been few reviews or evaluations of the consolidation experience in Australia and it became an important part of this project for us to examine *ex post* examples of different forms of consolidation. This involved 15 Australian case studies that aimed to document the experience of various groups of stakeholders.<sup>6</sup>

Cases were selected from a matrix, which aimed to capture different approaches to consolidation, as well as providing data about the experience in different types or locations of councils. This was *not* a sampling approach and so it is hard to draw generalised conclusions from the cases about the consolidation experience in different classes of councils (see Yin 1994) – for example, conclusions about rural and remote councils versus metropolitan fringe councils. However, the *totality* of the consolidation experience illuminates similarities and differences between councils in general.

#### *Practitioner interviews*

We identified eight 'people of standing' from the local government sector (present or former) who had significant experience with different forms of consolidation. This identification was made through discussion with key confidants in the sector and was designed as a stratified sample to ensure that the

voices of elected members and senior officials, men and women, the local government associations and different state jurisdictions were heard. These eight interviews have, in effect, provided us with a rich and valuable 'oral history' about experience with and reflections on consolidation.

We recognise that selection of participants has potential for bias, as over time new arrangements can become 'normalised' and, therefore, more acceptable, or that previous arrangements can be held up as examples of some former golden age. However, again it is the *totality* of these important 'oral histories' that adds substance to data gathered from other sources. It is also a valuable way of capturing some of the experience of earlier consolidation activities, for example the amalgamations conducted in the 1990s, in the absence of carefully designed evaluation studies.

### **Literature review**

This summary of the literature considers the changing context for municipal consolidation through the four dimensions of the research problem noted above.<sup>7</sup> An enduring theme in the literature is the perception that municipal amalgamation will result in significant gains through economies of scale. Our review of the literature makes it clear there is insufficient robust research to support this proposition – at least insofar as it is claimed that the gains will be truly substantial, will lead to reductions in property rates and other charges, or could not be matched by other means such as shared services.

Economies of scale exist when long-running average total costs fall as the scale of production increases, generally where fixed costs are a large proportion of total costs. Services such as water, wastewater and solid waste management provide examples where economies of scale are more likely to be evident. The notion of economies of scale has been seen as particularly relevant to municipal consolidation when, as a result of the joint activity, outputs remain generally constant but average costs reduce; in short, the argument is that consolidation of organisations can produce the same kinds of outputs for lower costs.

Measurement problems abound in assessing whether or not economies of scale exist. They include failure to specify and scope municipal functions, lack of robust longitudinal data and problems with trying to aggregate municipal functions rather than measure function by function (Bish 2001). Recent research using econometric modelling is not yet producing reliable and robust results. Problems of modelling and of significant differences in the production profile between different functions of local government contribute to the difficulties in determining economies of scale with any sense of accuracy (Corliss and Lewis 2010).

Economies of scope arise when joint activity enables organisations to produce a wider range of products than would be possible for each on its own, typically by making more effective use of common inputs. It involves the generation of new outputs that otherwise could not have been produced by individual organisations alone. Dollery, Crase and Johnson (2006) argue that the most likely source of economies of scope in Australian local government is jointness of inputs, but no empirical studies have yet investigated this.

The concept of ‘strategic capacity’ can be seen as building on economies of scope. It concerns the ability of councils to identify and respond to factors influencing the community’s future. It has been argued that strategic capacity can be enhanced by municipal consolidation (LGRCQ 2007) although again no empirical evidence has been advanced.

Whilst service delivery efficiency and effectiveness has remained a primary theme in considering issues of local government performance this glosses over the complexity of local government as a dual-purpose institution responsible both for local service delivery and for providing an important layer of local democracy

Although economic efficiency has been most commonly invoked as a reason for amalgamating councils, those Australian local government Acts<sup>8</sup> that set out criteria to be taken into account when considering boundary changes tend to dwell as much on matters of community of interest, local values, impacts of change and democratic representation – although the relative weighting to be given to such factors is not stipulated. The notion of ‘community of interest’ is often debated vigorously when boundaries are under consideration, but can be a difficult concept to pin down, especially given the complexity and mobility of modern society.<sup>9</sup> Kiss (2003, p. 104) argues that the concept of community as applied in recent discourse about the value of local government as a democratic institution is both ‘confused and contentious’.

In terms of democratic representation, recent research suggests that citizens are now looking for different means of engagement beyond voting in periodic elections. Haus and Sweeting (2006) advance four concepts of engagement: representation, user, network and participatory. Schaap *et al.* (2009) develop a similar typology from a cross-country study of European local government. Recent changes in Australia reflect both an interest in developing new means of engagement and a recognition that conventional means of consultation are falling out of favour (Aulich and Artist 2011). It is unclear, however, whether size makes a difference to the effectiveness of participatory governance.

A related issue is whether recent structural reforms have paid too little attention to the democratic dimension of local government, and there is concern in some quarters that communities face a growing ‘democratic deficit’. There has been a tendency for amalgamated councils to have fewer elected councillors than the combined total of their predecessors. At the same time, some state governments have a policy of reducing councillor numbers within *existing* councils (NSWDLG 2006). Moreover, the creation of larger local government units in Australia generally has not been matched by the establishment of subsidiary bodies, although some councils have established informal neighbourhood committees or forums.

There is virtually no data available which examines whether service delivery has been improved with structural reform generating increased scale. It does appear, however, that the process of reviewing services at critical junctures such as

preparation for outsourcing or dealing with increased size and scale of new structural arrangements may be responsible for service enhancement (Aulich 1999).

Distinguishing between provision (enabler) and production (producer) can be a means of enhancing efficiency but it also has other advantages. It helps support the autonomy of smaller local government units and it can also support co-production by engaging citizens in the production of services (Pestoff 2009).

Shared services are widely seen as a practical and cost-effective way for councils to share experience and resources, tackle common tasks, or take advantage of economies of scale. However, success depends on a number of factors including the commitment of both political and executive leadership. Deloitte (2010) comments that 'despite a history of tactical collaboration between [English] local authorities shared services have rarely succeeded at scale'. A recent British Columbia report (Regional District Task Force 2010) concludes that, 40 years on from the beginnings of its regional district approach to developing optional shared services, friction amongst different local governments can still be a barrier to effective performance.

One important factor appears to be whether local government has access to a suitable structure for shared services. In many Australian states there are limits on local government's power to establish companies and there is virtually no formal framework regulating post-establishment governance. However, there are specific provisions in South Australian and Queensland legislation that provide a framework regulating post-establishment governance. In New Zealand and in a number of Organisation of Economic Co-operation and Development (OECD) countries, restructuring of local government has resulted in an extensive use of corporate forms for activity that may previously have been core local government business (Grossi and Reichard 2008).

## **Discussion**

The principal findings of the research are as follows.

### *Economies of scale and cost savings*

A distinction needs to be drawn between *internal cost savings* and *reduced rates and charges* to consumers of local government services. Some case studies revealed cost reductions in specific areas of service delivery (for example, savings in administrative overheads or waste management), but the evidence strongly indicates that such savings are usually ploughed back into other areas, notably asset management, which over recent decades has typically been underfunded by Australian local governments.

For example, in the interviews, the rate reductions mandated in the Victorian amalgamations of the 1990s were cited as an example of the *potential* for generating savings for consumers. However, this proposition was tempered with comments from expert interviewees that unacknowledged costs of the Victorian approach included the failure of local government to invest in infrastructure and,

perhaps, in professional recruitment and development as well as the drawing down of reserves. We concluded that significant reductions in rates and charges have not been an intrinsic part of consolidation through municipal amalgamation.

Little evidence supports the view that economies of scale would accrue consistently from amalgamation, as had been predicted from the literature review. Importantly, in the few cases where economies of scale were asserted, the full costs of amalgamation had not been factored into the calculation of net savings. It is clear that amalgamation (and some other forms of consolidation) imposes considerable costs in dislocation and developing new arrangements (see also Aulich 1999) and new cultures. Almost all respondents recognised that the process of amalgamation itself generated costs that were typically not included in the balance sheet, such as disruption, time taken to review service levels and engage communities and compromises. This often meant some leakage of cost savings to ensure buy-in from all stakeholders. Usually these costs were borne by the councils themselves, which is ironic when amalgamation is often proposed to address financial problems.

The most significant disagreement between interviewees related to the choice of consolidation approach. Some saw regional collaboration or shared services arrangements as simply putting off the inevitable need to amalgamate to secure economic efficiencies. As one interviewee commented:

... all of the alternatives to amalgamation are basically diversionary from the political interests of those that don't want it to occur. All of the efficiencies that you allegedly get through regional sharing and voluntary arrangements could all certainly be got through a merged entity, a consolidated entity.

However, the comment from one elected member, who praised the use of shared services because it enabled councils to undertake services which otherwise would not be feasible without impacting too much on the deep-seated sense of local community that existed in the region, was typical.

Overall, there is little evidence that *amalgamation* will of itself yield economies of scale in service delivery greater than those achievable through shared services arrangements, or that such economies are available across many of local government's functions beyond fairly limited thresholds. We found few robust examples in the literature, in our case studies or from our 'people of standing'. Yet many in state government – and some in local government – still cling to the belief that the primary goal of amalgamation is to cut costs.

### *Strategic capacity*

We concluded that any efficiency gains from consolidation would not deliver significant reductions in rates and charges. Rather, greater efficiency is more likely to be reflected in enhanced strategic capacity or improved service delivery, mostly generated by the realisation of economies of scope.



The following comments from interviewees illustrate the clear capacity advantages that arose from various forms of consolidation, although respondents were usually unable to precisely acknowledge the *extent* of the contributions to the capacity enhancement:

The efficiency stuff I think is swings and roundabouts. It is capacity in service and project delivery that I think is the big winner.

[Sharing services] allowed us to purchase waste management equipment that we would not have been able to do as separate councils.

The focus on longer term strategy ... was incremental and evolutionary, but it was the initial jolt of the structural change that set that in train.

I think you can actually have a more professional approach to things like market research and so on, through a larger budget. You've just got more resources to do those things.

You do [have the] ability to bulk things up so that you're actually dealing with much bigger projects than smaller councils would even contemplate.

My biggest reason for supporting that direction of consolidation is to increase the capability and effectiveness of the local government system in those areas rather than looking at cost savings.

We didn't set out to measure [savings], but I think that it was reasonably significant. That was returned to the ratepayers through improved planning and improved levels of service.

I primarily see it as a capacity advantage. I've never been a big supporter of the economies of scale argument. I don't think that will you get cheaper rates out of this as the rate bases in those areas are very tenuous.

Economies of scope increase the capacity of councils to undertake new functions and deliver new or improved services that previously were not possible. Significantly, they enable councils to shift their focus towards a more strategic view of their operations. We argue that this enhanced strategic capacity is in part a function of increased size and resource level, but it is also related to the potentialities that are created by the pooling of knowledge and expertise. The process of consolidation can generate a focus that transcends individual local government boundaries and encourages councils to operate in a broader context, that is more regional or system-wide, and enables them to relate more effectively to central governments. Enhanced strategic capacity also appears essential to local government's long-term success as a valued partner in the system of government. Overall, it emerged as probably the most important issue for councils to consider in examining different modes of consolidation.

A difficult question to answer is whether economies of scope and development of strategic capacity are stronger with amalgamation than with other approaches to consolidation. Several of those interviewed for this research argued strongly that amalgamation is the best route to strategic capacity. It would appear that

larger (and fewer) amalgamated councils are more likely to be engaged as partners with state or national governments in regional planning or governance arrangements, and to be able to exert real influence. However, this is not an ‘either-or’ situation. We found that larger, amalgamated councils can still find advantages in pursuing even greater consolidation through shared purchasing schemes or regional advocacy groups.

Shared services may also enhance strategic capacity to varying degrees, but this would appear to require more robust and powerful regional structures – such as semi-autonomous arms-length entities – which may require a significant ceding of local decision-making on the part of member councils. Looser forms of regional collaboration appear less likely to deliver substantial strategic capacity.

### *Service delivery*

The issue of the quality of service delivery also relates to the notion of capacity enhancement. It is clear that consolidation and the process of change have contributed to more careful introspection about service levels and arrangements. In particular, the Victorian experience of amalgamation, coupled with compulsory competitive tendering, forced councils to carefully analyse and specify their service delivery arrangements. For some, it offered a new opportunity to reconsider their delivery mechanisms, especially the establishment of ‘business enterprises’. However, state government regulation that limits the creation of robust arms-length entities, and fails to mandate adequate governance frameworks for such entities, can be a constraint to furthering this kind of innovation. We conclude that consideration needs to be given to amending legislative provisions in Australia to mirror practices that were particularly evident in the New Zealand cases that were included in the broader research project from which this article has been drawn.

Other innovative and improved approaches to service delivery have been adopted or are under consideration following consolidation. Examples emerged from our research, such as different modes of shared services through various forms of regional or state-wide service delivery and sharing of chief executive officers (CEOs) between small councils. Respondents noted that councils are finding more ways of working together but argued that state government timeframes for reform were typically too fast for local communities to achieve the best possible outcomes, and given that many of the ensuing problems are the result of a ‘disconnect between state and local government’ the state needs to exercise more patience to enable local government to respond appropriately to policy changes.

Although there was general agreement that service standards have been lifted with consolidation, for one respondent amalgamation did not address the fundamental problems relating to financial sustainability of council operations. The respondent argued that gains from economies of scale and scope may have been more difficult to secure in smaller councils; a comment that was echoed by other respondents.

### *Local democracy*

From our data, it appeared that there was relatively little concern about the impact of consolidation on the level of electoral representation and strength of local democracy, especially from officials. However, some elected members were more concerned about potential or real losses in local identity, due to both the scale of amalgamated councils and reductions in the overall number of elected councillors. As one elected member suggested, ‘people still turn to little councils to find the help that they need to keep their sense of community together’. More broadly, it was argued by elected members that ‘the small regional areas ... have enormously strong identities’, which would be threatened by council mergers. At the same time, others would agree with the comment made by one elected member that after amalgamation in his area, ‘it’s [now] a pretty large geographic area as well, and there are different communities. [But] I don’t think we’ve gone backwards in terms of local democracy at all.’

The more limited focus on local democracy may be due to several factors. First, any impact on local autonomy and representation and/or public access to decision-making may not be overt and readily appreciated in forms of consolidation such as shared services or regional alliances. Second, public concern may simply dissipate once an amalgamation and reduction in numbers of elected representatives has been completed and the new arrangements are accepted as the norm (O’Faircheallaigh, Wanna and Weller 1999). Third, in some cases specific provisions were enacted to ensure that the perceived quality of local democracy was not unduly affected, for example maintaining a relatively high ratio of elected members to constituents, or implementing new institutional arrangements (such as ward structures) to ensure adequate community engagement and access to council. Fourth, it may be that, as a whole, councils are nowadays more conscious of the importance of transparency, accountability and access, and have made improvements with regard to these irrespective of any consolidation activity.

### *Approaches to municipal consolidation*

There was strong agreement that most areas of Australia would benefit from some form of (further) consolidation of local governments. Respondents identified a number of drivers for this, such as financial stress in local government; the need to present a stronger, more united front to other spheres of government; the potential for organisational capacity building; the financial advantages of resource sharing and shared services; an enhanced capacity to manage assets, especially infrastructure; and the need for local government to be able to operate in a more strategic outward-looking manner.

The primary difference in opinion among the practitioner interviewees and others consulted as part of the case studies related more to the form of consolidation that should be initiated. This difference wedged the arguments between elected members and officials, the former being more concerned about finding consolidation mechanisms other than amalgamation, especially through

resource sharing, the latter not confident that voluntary arrangements would result in sufficient change. These differences probably reflect how respondents conceive the *primary* focus of the local government sector: efficient service delivery, community representation, or a substantial partner in the broader system of government. This point is important given that few argued that this was an either/or situation, rather that a number of roles were significant for local government but that it was a matter of emphasis.

There was also support for the proposition that state governments needed to offer more effective leadership of reform agendas rather than simply direct that change will occur, sometimes seemingly ad hoc. Few plaudits were given by any of the interviewees to any state governments for their previous amalgamation programmes. Criticisms abound that programmes were either too ideologically driven (Victoria); that insufficient attention had been paid to examining boundaries (South Australia); that state governments had been too impatient and had undertaken inadequate consultation (Queensland); and that state governments had provided inadequate leadership (Western Australia and New South Wales).

Despite the criticisms levelled at past involvement of these governments in driving amalgamations, most saw an important role for them in facilitating and funding consolidation initiatives. While some argued for an enhanced role of local government associations in reform programmes (as occurred in South Australia), most respondents favoured the establishment of an independent, ongoing body to undertake continuing analysis of local government boundaries, perhaps along similar lines to the role of electoral commissions. However, while this might forestall any unwarranted or inappropriate central government intervention, Australian state governments do have a long history of bypassing statutory boundary commissions when they conclude that sweeping change is essential and urgent.

This raises broader questions about the general relationships between state and local governments. It appears that there is still too much focus on the institutional arrangements of the local government system in each jurisdiction, rather than on the fundamental issue of the critical societal roles performed by local government bodies.

Against that background, the 2007–2008 Queensland amalgamations can be seen to represent a decisive shift in the debate about structural reform. From the outset, the priority was to create a more robust and capable system of local government, with little or no mention of economies of scale or reducing rates. Amendments to the Local Government Act stated the objectives of reform were to optimise service delivery, contribute to regional planning and development and partner with other governments to ensure sustainable and viable communities. The Queensland Reform Commission promoted the argument that councils needed ‘knowledge, creativity and innovation’, as well as adequate financial capacity and skills to enhance the strategic capacity of local government and that amalgamation was a key strategy in securing these goals (LGRCQ 2007).

*The limits to consolidation?*

Our case studies and interviews suggest that in the Australian context there is a 'cut-off point' in terms of feasible consolidation, especially where considerable travel distances are involved. Shared services may be impractical or yield very limited benefits when travel distances become prohibitive, democratic representation may also become too onerous, and establishing any form of community of interest is difficult across vast and diverse geographical areas. This raises questions about what, if anything, can be done to enhance the capacity and viability of smaller (in population) and more remote councils, many of which face severe financial pressure. Perhaps quite different options will need to be considered, such as a 'second division' of local government, reduced responsibilities, or un-incorporating the areas involved and managing them through special-purpose boards and township committees outside the normal local government system.

At the other end of the spectrum, consideration needs to be given to whether there is a preferred upper limit to the population size of councils. For example, in the next two decades South East Queensland is likely to have five or six councils with populations in excess of 0.5 million, with Brisbane City at 1.25 million – a 'super city' by Australian standards. This raises questions about management structures and capacity, as well as the nature and quality of local democracy. Interestingly, Brisbane City Council has for many years had a unique political structure of single member wards, each serviced by a full-time councillor with staff support, plus a directly elected, executive mayor and a 'civic cabinet'. This arrangement appears to provide a high level of local representation as well as strong strategic leadership. Perhaps it offers a model for other very large local governments and we recommend that further studies be undertaken on the governance models of these super cities.

*The process of consolidation*

It is not always easy to determine which form of consolidation (if any) is most appropriate for particular circumstances. Decisions need to reflect both shorter-term and strategic views of the desired outcomes for communities. Consolidation almost always works best after extensive consultation with, and wherever possible the imprimatur of, the local community. The case studies reveal that inadequate engagement and consultation with those affected reduce or offset potential benefits of consolidation, especially by increasing uncertainty and anxiety about the future, and compounding the inevitable disruption associated with significant change.

Our research revealed that in most cases the costs of change and dislocation, and the time required for adequate consultation, were underestimated and too rarely factored into the cost-benefit equation for adopting particular options. However, this comment also applies to the 'do nothing' option, which may well have significant opportunity costs from retaining arrangements that are clearly sub-optimal, or create an unintended pattern of 'winners and losers'.

Motivation is also important, as many respondents (both from the case study research and from senior practitioners) argued that adoption of some forms of consolidation (shared services and regional collaboration) chiefly as a means of countering moves towards amalgamation, were unlikely to result in a lasting partnership and genuine benefits to the collective of councils and communities involved. This also raised questions of ‘good governance’ as a fundamental element of any form of consolidation. Critical aspects of governance revealed by this study are:

- the development of a clear and robust rationale for the consolidation process
- meaningful consultations with all affected parties at the start and during the process of change, plus trust and ‘good faith’ in negotiations
- commitment and effective leadership at both political and chief executive levels with, in the case of amalgamation, transitional arrangements for leadership agreed at the outset
- negotiating the form of governance of the new arrangements, noting that these are best treated as a fresh start, rather than a ‘take-over’ by one party
- in the case of shared services, ensuring that cooperative arrangements or newly created entities are designed to engender continuing commitment (political and managerial) and provide necessary specialist expertise
- recognising that change has costs and that securing staff buy-in is critical to success
- a realistic timetable for implementation
- an objective, independent and ongoing evaluation programme.

### **Concluding comments**

Local government is under continuing pressure to evolve and reform in order to address challenges such as financial sustainability, changing community needs and expectations, metropolitan growth, shifting relationships with central governments, and so on. There was a strong view from the interviews, in particular, that further substantial change is a given. The primary question was what form should this take?

Our research indicates that consolidation – whether amalgamation, shared services or other forms of closer collaboration between councils – is an essential (but not exclusive) strategy to address the real challenges facing local government and to secure its place in the evolving Australian system of government. The evidence shows that significant benefits can be derived from all of the approaches to consolidation examined in this study. Equally there may be disbenefits – disruption, transition costs, weakening of local democracy, loss of local identity and employment – that need to be weighed in any strategic approach to reform.

The fundamental point is that all options need to be addressed and solutions matched to a realistic, evidence-based assessment of the particular circumstances

and issues involved. It follows that consolidation is best approached in the context of broader reform packages so that complementary improvements, such as enhanced political governance, better financial and asset management, or organisation development, are also considered.

The available evidence points to a particular need for ongoing consolidation of local government activities in metropolitan areas. Growing concerns about Australia's capacity to manage rapid metropolitan growth and change, and the federal government's recent move to develop a national urban policy and promote better metropolitan planning, call for a demonstration of local government's capacity to make a strong contribution on behalf of local communities and in the broader regional and national interest. There is a widespread view that this calls for substantially larger and more capable local government units *as well as* collaborative planning and resource sharing.

Three key themes can be identified from Australia's diverse experience of local government restructuring. First, there have been two quite distinct goals of structural reform, a search for economies of scale and more effective service delivery on the one hand and the need for financial viability and strategic capacity to meet emerging challenges on the other. While these goals are inter-related, they reflect different policy agendas relating to perceptions of the changing role of local government in Australia. An emerging emphasis on building strategic capacity highlights a growing consensus that local government should play more of a developmental role, responding to the varied needs and circumstances of different regions and communities. To enable this, local government may need to generate and/or obtain access to greater resources and skills typically favouring larger, more robust units. Resource sharing through strategic alliances or regional organisations of councils may achieve the same result (see Dollery and Marshall 2003, p. 247), but this depends on the scope and durability of those cooperative arrangements.

Second, the setting of structural change within a broader reform context highlights the need to consider questions of local democracy, including the level of political representation and how best to foster community engagement in civic affairs. Should councillors be seen as a 'board of directors' restricted largely to setting policy and leaving managers to manage? In this case fewer elected members would be required and council areas could be much larger. Or does effective local democracy demand smaller units and a higher ratio of councillors to constituents? Alternatively, are quite different forms of representation and political control required, perhaps building on the Brisbane model?

Third, there is now widespread acceptance that appropriate structural solutions will differ considerably from one region to another, including within states. This reflects the increasingly diverse environmental, economic, social and financial contexts within which local governments operate and the varied challenges they face. This presents an intriguing challenge to local councils to find the best way forward in their particular circumstances, and perhaps sets the scene for much greater legislative, functional and structural variation within systems of local government.

## Acknowledgements

This article was developed from a large research project conducted under the auspices of the Australian Centre of Excellence for Local Government (ACELG).

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## Notes

1. The term ‘council’ is used in this article for municipalities, local authorities and local governments.
2. For a recent overview of Australian local government see Sansom (2009).
3. One implication of this is that proposals for local government restructuring are exclusively a matter for state/territory governments to initiate and/or approve.
4. In the case of sweeping changes made in the state of Victoria, for example, it was claimed that savings of about 20% would be achieved (Moore 1996, p. 65).
5. Unlike many of their international counterparts Australian local governments do not carry responsibility for functions such as social and welfare services, education, health or policing.
6. The authors wish to acknowledge the significant work of Melissa Gibbs, Alex Gooding and Stefanie Pillora in conducting interviews and writing most of the case studies.
7. A full literature review for this research project can be found at ACELG (2011, Vols 1 and 2).
8. Each state and the Northern Territory have their own local government Acts.
9. For example, each Melbourne municipality experiences a 35% turnover in population every five years (Moore 1996, p. 71).

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# Debate: The case for council amalgamations in Sydney: fact and fiction

Graham Sansom

A recent paper in *Public Money & Management* by Drew and Dollery (2014, p. 281) claimed that: 'The Australian [*sic*] Independent Local Government Review Panel (ILGRP) recently proposed amalgamating the majority of New South Wales (NSW) local councils in the Greater Sydney metropolitan region in order to increase municipal population size with the aim of engineering a more financially sustainable system'.

A centrepiece of the paper is a critique of the financial sustainability assessments of NSW councils undertaken by the state's Treasury Corporation (TCorp). Their reworking of TCorp's data, together with material from other studies, leads the authors to conclude that: 'there is little evidence of any statistically significant association between the financial sustainability ratios and population size for Greater Sydney councils' and that 'claims made by the ILGRP, which invoke the TCorp analysis, that the radical forced amalgamation of Greater Sydney councils will improve their financial viability have no sound empirical foundation' (Drew and Dollery, 2014, p. 287).

For several years Professor Dollery and various co-authors have found fault with almost all local government amalgamations across Australia—actual or proposed. Their writings are summarized in *Councils in Cooperation* (Dollery *et al.*, 2012, chap. 2). They argue that 'compulsory' amalgamations have not been effective in achieving meaningful cost savings and efficiencies, and that a better way to achieve larger scale economies is for councils to enter into collaborative shared services agreements.

The paper by Drew and Dollery seeks to demonstrate that amalgamation also fails to improve underlying financial sustainability. They may or may not be correct. Researching a forced council merger in northern NSW, Tiley (2012, p. 340) found evidence of economies of both scale and scope. Specifically, Tiley offered a qualified judgement that: 'the financial strength and stability of (the merged

council) is now greater than that of each of the former councils' (*ibid.*, p. 303).

However, the fundamental problem with Drew and Dollery's paper does not lie in the correctness or otherwise of its financial analysis, but with its premise that the ILGRP made a 'radical recommendation for a reduction in the number of councils in the Greater Sydney metropolitan region...chiefly in order to improve the financial viability of local government in Sydney' (pp. 281–282). This is pure fiction.

Drew and Dollery base their paper on the ILGRP report *Future Directions for NSW Local Government* (ILGRP, 2013). *Future Directions* was 'a progress report and basis for further consultation' (*ibid.*, p. 3). The ILGRP's final report was not delivered until late October. *Future Directions* did not include 'recommendations'. It did set out some 'preferred options' for council mergers, but these were clearly marked 'for consultation' (*ibid.*, p. 61). Moreover, the ILGRP's terms of reference effectively precluded a 'forced merger programme' (Drew and Dollery, 2014, p. 281) because that was (and remains) contrary to state government policy.

Nowhere did *Future Directions* argue that amalgamations of councils in metropolitan Sydney would improve financial viability. Drew and Dollery refer to: 'the ILGRP's repeated assertions that there is a direct link between population size and council capacity and council financial sustainability (ILGRP, 2013, pp. 44–46)'. This is untrue. First, there is no reference whatsoever in that section of the ILGRP report to improving financial sustainability through amalgamations, let alone 'repeated assertions'. Second, the need for enhanced capacity and the case for some amalgamations were clearly advanced in terms of four other objectives (ILGRP, 2013, p. 44):

- *Create high-capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of state and federal agencies.*
- *Establish a more equitable pattern of local government across the metropolitan area, taking into account planned development.*
- *Underpin Sydney's status as a global city.*
- *Support implementation of the Metropolitan Strategy.*

The ILGRP's concerns were with the effectiveness of local government as an arm of metropolitan governance. It focused on the need for what has been described as 'strategic

capacity' (Aulich *et al.*, 2014). This is quite different from the 'straw man' of financial viability set up by Drew and Dollery as the basis for their paper. Following pp. 44–46 of *Future Directions* is a table explaining the ILGRP's 'boundary options' for each of the 41 existing metropolitan local governments. Financial viability is not mentioned at all.

Drew and Dollery (2014, p. 284) include some of the ILGRP's options—again incorrectly characterizing them as 'recommendations'—in table 2 of their paper. They fail to explain that they have been selective. Both their table and their reworking of the TCorp data exclude 3 of the 41 local government areas covered by the ILGRP's options, despite the fact that the ILGRP identified amalgamation as a longer term option for two of those three. They refer twice (*ibid.*, p. 282) to the ILGRP proposing a reduction in the number of 'Greater Sydney' councils from 38 to 14: *Future Directions* uses neither that term nor those numbers.

It is very difficult to understand how two experienced researchers could have so thoroughly misinterpreted the ILGRP's words and intentions.

Several points also need to be made regarding Drew and Dollery's critique of the TCorp report. First, it was not commissioned as they claim by the ILGRP, but by the state government's Division of Local Government.

Second, assessments of councils had begun several months before the ILGRP was established, as part of the state's Local Infrastructure Renewal Scheme, so the timeframe for TCorp's review was not as demanding as Drew and Dollery (2014, p. 282) suggest. All this is made clear on the first page of the executive summary of TCorp's report (TCorp, 2013, p. 5). Facts thus presented are surely difficult to overlook.

Third, Drew and Dollery (2014, p. 282) offer no evidence to support their claim that TCorp 'entirely neglected both the scholarly literature and international practice in other national jurisdictions'; or that in the case of ILGRP's use of the TCorp assessments: 'No attempt was made to analyse the appropriateness of either the ratios or the benchmarks employed' (*ibid.*). Those are merely assumptions.

Fourth, Drew and Dollery incorrectly use the term 'financial sustainability ratios' in discussing TCorp's methodology and findings. TCorp (2013, pp. 22–24) reported using 10 financial 'indicators' to measure performance against a set of benchmarks. Applying a series of weightings, the results were then compiled

to produce a composite 'financial sustainability rating'. TCorp also gave each council an 'outlook' rating taking into account a further range of factors (*ibid.*, p. 25), and discussed how broader governance and management variables can affect a council's sustainability (*ibid.*, p. 33).

Some of Drew and Dollery's technical criticisms of TCorp's methodology may be justified, but their case is weakened by failing to report clearly and fully what TCorp actually did and said. Also, it needs to be emphasized that TCorp did not address the issue of whether or not amalgamations might improve financial sustainability. Similarly, in responding to TCorp's findings, the ILGRP put forward a long list of proposals on financial management, local government revenues, infrastructure funding and productivity that were quite separate from its thinking on structural reform (ILGRP, 2013, pp. 11–23).

Much more could be said about Drew and Dollery's paper, including additional errors of fact, further unsubstantiated assertions, and quotations without references. However, the essential point here is that the potential value of local government consolidation in metropolitan Sydney is an issue of pressing concern that warrants thoughtful debate. Parties to that debate, and especially scholars, should stick to the facts and avoid misrepresenting each other's arguments.

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