

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

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Brisbane City Council is by far the largest in Australia. Our paper examines the financial performance of Brisbane City Council against other NSW and Queensland councils on four financial performance criteria to test the proposition that 'bigger is better' in local government. This doctrine underpins the NSW Government's Fit for the Future policy.

We find that Brisbane did not perform better on the four ratios than its smaller counterparts. This demonstrates that 'bigger is not more financially sustainable'!

RESEARCH AND EVALUATION

Is Biggest Best? A Comparative Analysis of the Financial Viability of the Brisbane City Council

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Structural reform through forced mergers has been a dominant feature of Australian local government for decades. Advocates of compulsory consolidation contend that larger municipalities perform better across a wide range of attributes, including financial sustainability. Although empirical scholars of local government have invested considerable effort into investigating these claims, no one has yet examined the performance of Brisbane City Council against other local authorities, despite the fact that it is by far the largest council in Australia. This paper seeks to remedy this neglect by comparing Brisbane with Sydney City Council, an average of six southeast Queensland councils and an average of 10 metropolitan New South Wales councils against four measures of financial performance over the period 2008–2011.

Key words: *Brisbane City Council, financial viability, local government*

Introduction

Across the world, local government has undergone a period of arduous reform over the past few decades and Australian local government has been no exception (Denters and Rose 2005; Faulk and Hicks 2011). Although several policy instruments have been employed by Australian local government policy makers (Dollery et al. 2013b), in common with many other countries (see, for instance, *Public Finance and Management*, Special Editions 13(1) and 13(2), 2013), structural reform through compulsory council consolidation has been the main engine of reform in the majority of Australian state and

territory local government systems. As a consequence, the total number of local authorities in Australia decreased from 1,067 to 680 (36%) from 1,910 to 2,008, although total population grew from 4,425,083 to 20,209,993 people (an almost a fivefold increase) over the same period (Grant et al. 2009).

Proponents of municipal mergers typically contend that ‘bigger is better’ in local government or advance one or more aligned sub-claims on the relationship council size and council performance, such as ‘bigger is cheaper’, ‘bigger means improved services’, ‘bigger is more efficient’, and more recently ‘bigger is more financially viable’ (Sancton

2011). Policy makers who pursue structural reform through council amalgamation programs frequently claim that larger local governmental entities will produce cost savings, boost productivity, improve the quantum and composition of local service provision, enhance administrative and technical capacity, improve strategic management, enable more effective lobbying with higher levels of government, and increase financial sustainability (Dollery and Robotti 2008).

These claims are controversial and have engendered a long-standing debate in the scholarly literature (see, e.g. Bish 2000; Boyne 1998; Dollery et al. 2013b; Oakerson 1999). Despite the ubiquity of compulsory council consolidation as an instrument of reform in the real world, and a host of extravagant claims regarding its efficacy, the empirical literature is far from settled (see, for instance, Lago-Penas and Martinez-Vazquez 2013). In the Australian context, debate continues apace, often centred on proposed amalgamation programs recommended by public inquiries (see Dollery et al. 2012 for a detailed account of the relevant literature), such as the reform process propagated by the Independent Local Government Review Panel (ILGRP) in New South Wales (NSW) in its final report *Revitalising Local Government* (2013) and the disputation surrounding the recommended municipal mergers in Perth by the Metropolitan Local Government Review (MLGR 2012) in its *Final Report*.

However, a surprising gap exists in the existing Australian empirical literature on the relationship between council size (as proxied by population) and council performance (as measured by performance indicators): no empirical study has yet evaluated the performance of the Brisbane City Council (BCC) – by far the largest local authority in Australia with an aggregate population of 1,079,392 persons (or around 380,800 households) as on 30 June 2011 – relative to other large Australian municipalities. An analysis of this kind could take advantage of the ‘natural experiment’ provided by the comparatively enormous size of the BCC. This paper seeks to address this omission in the empirical literature on Australian local govern-

ment by examining the performance of the BCC relative to six large metropolitan councils in southeast Queensland (SEQ) and 11 metropolitan councils in NSW.

The paper is divided into five main parts. Section ‘The Local Government Amalgamation Debate’ seeks to provide a synoptic account of the Australian debate over local government amalgamation by way of institutional background. Section ‘Empirical Analysis of Amalgamation’ provides a brief summary of the empirical literature on council consolidation. Section ‘Data and Empirical Strategy’ sets out the data sources and empirical strategy employed in this paper. Section ‘Results’ discusses the results flowing from the empirical analysis. The paper ends with some brief concluding remarks on the policy implications of the analysis in Section ‘Policy Implications’.

The Local Government Amalgamation Debate

In a quest to improve the operational efficiency of local government systems across the developed world, higher tiers of government have traditionally relied on structural reform through the compulsory consolidation of smaller councils into larger organizational units (e.g. Dollery et al. 2012). This policy instrument has been repeatedly employed by policy makers in Australia, Britain, and New Zealand, as well as across many European nations to significantly reduce the total number of local government authorities (e.g. Dollery et al. 2006).

In the Australian local government landscape, it is typically argued – usually without reference to the empirical literature – that forced amalgamations will result in substantial cost savings and improved service delivery without adversely affecting a community’s ‘local voice’ (e.g. Dollery et al. 2006, 2012). On the other hand, opponents of forced amalgamation give emphasis to the dearth of empirical evidence in support of compulsory consolidation, the divisive impact of forced amalgamations on local communities, and the erosion of local democracy.

Whilst the policy rationale for forced amalgamation is derived from the belief that larger councils are more efficient than smaller councils (e.g. Dollery et al. 2006), it needs to be borne in mind that the theoretical and empirical literature on purported benefits of local government amalgamation is decidedly uncertain (Byrnes and Dollery, 2002; Dollery et al. 2012). Notwithstanding the dearth of empirical evidence, the belief that ‘bigger is better’ is so entrenched in the psyche of local government policy makers that forced amalgamation has been repeatedly used in Australia and abroad in an attempt to enhance local government efficiency (Dollery et al. 2008, 2012). The notable exception is Western Australia, which is currently in the process of reducing the number of metropolitan councils in Perth from 30 to 12 (Drew and Dollery, 2014).

Empirical Analysis of Amalgamation

The empirical analysis of council amalgamations has attracted considerable interest from scholars across the world. To begin with, a sizeable volume of empirical work exists on municipal mergers in the United States (e.g. Faulk and Grassmuck 2012; Faulk and Hicks 2011; Feiock 2004; Leland and Thurmaier 2006, 2010) and Canada (e.g. Reese 2004; Vojnovic 2000). The interest in council amalgamations is also evident among European scholars who have studied this issue for France, Germany, Italy, and Spain (Dollery and Robotti 2008) as well as Eastern Europe (Swianiewicz 2010), Denmark (Vrangbæk 2010), Greece (Hlepas 2010), Macedonia (Kreci and Ymeri 2010), Belgium, and the Netherlands (DeCeuninck et al. 2010). More recently, contributors to a two-part Special Edition of *Public Finance and Management* have also examined the impact of local government amalgamations for Australia (Dollery et al. 2013a) and New Zealand (Reid 2013), England and Wales (Andrews 2013), Estonia (Reiljan et al. 2013), Finland (Moisio and Uusitalo 2013), and the United States (Faulk et al. 2013).

In general, the majority of this empirical literature casts considerable doubt on whether the purported benefits of council mergers were re-

alized, particularly in relation to enhancing the operational efficiency of local councils. More specifically, a recurring theme found in the empirical literature is that the supposed benefits of local government amalgamation – specifically improvements in efficiency and cost savings – have not been realized. For example, in an evaluation of the empirical work on whether amalgamation produced greater efficiency in the United States, Feiock (2004) concluded that municipal mergers had not met their proposed economic objectives, but had instead led to increased expenditure. More recently, Martin and Schiff (2011) found limited evidence that local government amalgamations enhanced council performance in terms of either improved service delivery or a corresponding decrease in costs. These empirical findings have also been mirrored in the Canadian literature. For example, in the analysis of municipal mergers in Ottawa, Reese (2004) noted that remuneration levels increased in the post-amalgamation period, resulting in a net increase in local government expenditure. Along similar lines, Vojnovic (2000) investigated the short-term effects among five Canadian councils and found that overall costs increased in three out of five local municipalities.

In Europe, contributors to Dollery and Robotti (2008) examined municipal mergers in France, Germany, Italy, and Spain and arrived at the same conclusion that municipal mergers had failed to deliver on their intended objectives. Furthermore, in the Special Edition of *Local Government Studies*, similar conclusions regarding the purported benefits of council amalgamation have been drawn for Eastern Europe (Swianiewicz 2010), Denmark (Vrangbæk 2010), and Germany (Wollmann 2010). Hlepas (2010) was especially critical of the Greek program of municipal mergers whereas Kreci and Ymeri (2010) drew similar conclusions from the Macedonian program of council consolidations. Finally, DeCeuninck et al. (2010) also concluded that the program of local government reform in Belgium and the Netherlands has also failed to realize its intended objectives.

In Australia, the bulk of empirical evidence on the purported benefits of municipal

mergers has been almost exclusively derived from a spate of official national and state-based public inquiries into the on-going financial viability of local government sector (see Dollery et al. 2012 for a review of these official public inquiries). A common theme that has emerged from these official public inquiries is that the continued use of forced amalgamation as the preferred policy instrument has failed to address the seemingly intractable financial problems facing local councils across Australia (in particular rural and remote councils). In addition to these public inquiries, there is also a growing body of recent Australian empirical work that has raised considerable doubts as to whether the programs of forced council amalgamations in New South Wales (Drew et al. 2012), Queensland (Drew et al. 2014), Western Australia (Drew and Dollery 2014), and Tasmania (Drew et al. 2013) would either improve local government performance or result in any cost savings.

However, as we have noted earlier, the Australian empirical literature on the relationship between council size (as proxied by population size) and council performance (as measured by a range of financial performance indicators) is characterized by a curious omission: to date no empirical study has yet assessed the financial performance of the BCC relative to other large municipalities. An investigation of the comparative performance of the BCC would take advantage of the ‘natural experiment’ offered by the comparatively enormous size of the BCC relative to Sydney City Council (SCC), six large metropolitan councils in SEQ and 11 metropolitan councils in NSW.

Data and Empirical Strategy

The data used in this study were sourced from the comparative financial information published by the Queensland Department of Local Government (QDLG 2012) and the NSW Division of Local Government (NSWDLG 2011) over the period 2008–2011. These data were then used to construct a database of four key performance indicators (KPIs) that were used to compare BCC to:

- i. SCC.
- ii. The average of six SEQ councils (i.e. Gold Coast, Ipswich City, Logan City, Moreton Bay, Redland City, and Sunshine Coast).
- iii. The average of 10 metropolitan NSW councils (i.e. Campbelltown City Council, Gosford City Council, Hills Shire Council, Shire of Hornsby Council, Lake Macquarie City Council, Liverpool City Council, Newcastle City Council, Penrith City Council, Wollongong City Council, and Wyong Shire Council).

The selection of comparison council groups was based on the widely used and accepted Australian Classification of Local Government (ACLG) schema (see, for instance, Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG) 2013). Table 1 provides summary statistics for the BCC, SCC, six SEQ councils, and 10 metropolitan NSW councils for 2011. Looking across Table 1, a number of points are worth noting. In the first place, the ACLG for BCC and SCC is ‘Urban Capital City’ (UCC).¹ Although differences exist between BCC and SCC in terms of population size, population density, and geographical area they do, however, share a similar ‘city profile’ with respect to the level of median income, unemployment rate, and amount received in terms of general purpose grant per capita.

Secondly, the six SEQ councils were selected according to their geographical proximity to BCC and whether they met the ACLG criteria of either being classified as: (i) ‘Urban Fringe Very Large’ (UFV) (Ipswich City, Logan City, Moreton Bay, Redland City, and Sunshine Coast) or (ii) ‘Urban Rural Very Large’ (URV) (Gold Coast). The UFV and URV criteria were chosen because that they were the ‘closest match’ to the UCC criteria under the current ACLG schema (DITRD LG 2013). Along similar lines, the 10 NSW comparison councils were also selected using the UFV criteria, which, in effect, provides a quasi-control group for our set of SEQ councils.

The selection of the KPIs used to measure financial sustainability – defined as a

Table 1. Summary statistics on BCC, SCC, NSW, and SEQ councils

Council	Demographic			Economic		Financial					
	ACLG ^a	Area (km ²)	Total road length (km)	Density	No. of households ('000)	Median income (\$/year)	Unemployment rate (%)	Rates and fees revenue per household (\$'000/year)	Operating expenses per household (\$'000/year)	GP grant per capita (\$/person)	Local roads grant (\$/km)
Brisbane City	UCC	1367.0	5560	761.8	380.8	80444	5.3	1980.6	3823.2	19.60	2379.70
Gold Coast	URV	1358.0	3284	364.1	181.6	61048	7.4	2335.6	11793.1	19.60	2055.95
Ipswich City	UFV	1089.0	1465	153.3	56.3	64116	7.2	2180.2	2772.2	22.36	1596.36
Logan City	UFV	913.0	2115	304.5	91.3	65676	7.1	1618.4	1987.1	21.44	1800.02
Moreton Bay	UFV	2011.0	3297	188.0	132.6	65416	6.2	1490.9	2088.9	20.74	1613.67
Redland City	UFV	537.0	1026	258.2	49.2	70980	5.4	1918.9	2839.4	21.10	1858.81
Sunshine Coast	UFV	3126.0	3671	98.2	116.7	52520	7.1	2121.4	2794.1	20.92	1369.30
<i>SSE QLD average (excluding Brisbane City)</i>		<i>1505.7</i>	<i>2476</i>	<i>227.7</i>	<i>104.6</i>	<i>63293</i>	<i>6.7</i>	<i>1944.2</i>	<i>4045.8</i>	<i>21.03</i>	<i>1715.69</i>
Sydney City	UCC	26.7	301	6348.5	73.2	85228	5.8	4619.2	5341.0	25.46	3553.87
Campbelltown City Council	UFV	312.1	633	467.7	47.3	65052	7.4	1763.1	2632.3	54.42	2321.44
Gosford City Council	UFV	939.9	947	172.8	61.3	56628	6.1	2911.6	3696.5	40.65	2020.91
Hills Shire Council	UFV	401.0	832	423.6	53.3	106288	4.2	1739.6	2074.2	19.49	2069.81
Shire of Hornsby Council	UFV	462.0	620	339.5	52.7	94848	4.8	1620.0	2208.7	19.49	2232.56
Lake Macquarie City Council	URV	648.0	1254	291.7	70.6	58084	5.3	1640.4	2408.9	64.03	1931.50

(Continued)

(Continued)

Table 1. Continued

	Council	ACLG ^a	Demographic		Economic		Financial					
			Area (km ²)	Total road length (km)	Density	No. of households ('000)	Median income (\$/year)	Unemployment rate (%)	Rates and fees revenue per household (\$'000/year)	Operating expenses per household (\$'000/year)	GP grant per capita (\$/person)	Local roads grant (\$/km)
	Liverpool City Council	UFV	306.0	766	588.7	53.6	67548	7.0	1827.3	2716.9	32.67	2259.10
	Newcastle City Council	URV	187.0	746	794.3	58.5	60580	5.7	2714.8	3899.3	70.84	2156.12
	Penrith City Council	UFV	405.0	967	440.7	59.4	72696	5.5	2038.8	3052.3	49.94	2045.39
	Wollongong City Council	URV	684.0	885	281.3	71.8	57252	7.0	2312.9	3043.2	65.15	2295.17
	Wyong Shire council	UFV	740.0	1016	202.4	55.9	48568	7.8	3088.7	4001.0	57.63	1922.34
	NSW councils average (excluding Sydney City)		508.5	867	400.3	58.4	68754	6.1	2165.7	2973.3	47.43	2125.43
NSW	State	800809	145646		8.6	2471.3	64324	5.9	2538.0	3742.9	64.97 ^b	1263.60 ^b
QLD	State	1730620	152578		2.5	1547.3	64220	6.1	2545.5	4867.1	65.34 ^c	778.95 ^c

^aAustralian Classification of Local Governments (ACLG): UCC = Urban Capital City; UFV = Urban Fringe Very Large; URV = Urban Rural Very Large.

^bAverage for UFV councils in NSW.

^cAverage for URV councils in QLD.

municipality's long-term ability to generate adequate funds to provide the level of infrastructure and services as agreed with the local community – was obtained from the NSW Treasury Corporation's *Financial Sustainability of the New South Wales Local Government Sector* (TCorp 2013), which, in turn, was originally employed by the Queensland Treasury Corporation to assess the financial sustainability of Queensland local government (QTC 2008). The principal advantage of using these KPIs is that it (i) follows the customary practice for assessing the financial sustainability of local municipalities (including accepted benchmarks); and (ii) it readily permits a comparison of our results with those from other studies.

The following KPIs were used to measure and compare the financial sustainability of the BCC (Table 2) in terms of its:

- i. Financial flexibility that measures the municipality's operating performance in terms of its own-source revenue capacity and control over operational expenditure.
- ii. Liquidity that assesses a municipality's efficiency in managing capital (i.e. the efficiency with which a municipality uses its most liquid assets, such as cash, to generate income without running the risk of 'falling short' on servicing its short-term liabilities).
- iii. Debt service capacity that measures the municipality's likelihood of defaulting on its debt obligation.
- iv. Asset management that demonstrates how efficiently a municipality manages its assets (i.e. its building and infrastructure assets).

Our empirical strategy was divided into three main parts. In the first place, we examined the short-term trend in the KPIs for BCC and each comparator group over a 4-year period (i.e. 2008–2011) on which full information on all relevant data items was available. This period was selected to ensure that our analysis of BCC and the SEQ councils was based on the most recently available data following the 2008 Queensland amalgamations. Secondly, we examined how many times the established KPI

benchmark criteria – as defined in Table 2 – were met for BCC and each comparison group over the same 4-year period. Finally, we estimated a short-term forecast for BCC and each comparison group by applying the compound annual growth rate (CAGR) to the KPI in 2011.

Results

The main results for the BCC and its comparison groups are reported in Table 3. More specifically, Table 3 shows (i) the KPIs for 2011; (ii) the CAGR based on the last 4 years; (iii) the 'on target' percentage of meeting the benchmark within the past 4 years; and (iv) a short-term forecast determined by assuming that the KPI is growing/contracting at the same rate as it has in the previous 4 years. In turn, we now consider the financial flexibility, liquidity, debt service capacity, and asset management capacity for BCC and each comparison group.

Financial Flexibility

The own-source operating revenue ratio – the proportion of own-source income to total operating income – was used to measure and compare the *financial flexibility* of the BCC to each comparison group. With respect to financial flexibility a number of points are worth noting. In the first place, BCC's own-source revenue has been well below the accepted benchmark of 60% and its three comparison groups since 2010 (Figure 1).

Secondly, BCC's own-source operating revenue was 43% in 2011 and, based on current financial trends, its own-source operating revenue is expected to further deteriorate. Although nearly all other comparison groups showed signs of worsening financial flexibility, it is noteworthy that BCC suffered the highest decline in own-source operating revenue of –9.8% followed by the SEQ comparison group (–6.1%). In stark contrast, however, SCC's own-source funding capacity has remained virtually unchanged between 2008 and 2011.

In sum, BCC's relatively low own-source operating revenue ratio (and recent downward trend) raises concerns over the council's

Table 2. Definition of key performance indicators

KPI	Benchmark	Calculation	Definition
Own-source operating revenue ratio	> 60%	$\frac{\text{Rates, utilities, and charges}}{\text{Total operating revenue incl. capital grants and contributions}}$	This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A Council's financial flexibility improves the higher the level of its own-source revenue.
Unrestricted current ratio ^a	> 1.5 times	$\frac{\text{Current assets less all external restrictions}}{\text{Current liabilities less specific purpose liabilities}}$	Restrictions placed on various funding sources complicate the traditional current ratio used to assess liquidity of businesses as cash allocated to specific projects is restricted and cannot be used to meet a Council's other operating and borrowing costs. The Unrestricted Current Ratio is specific to local government and is designed to represent a Council's ability to meet short-term obligations as they fall due.
Debt service cover ratio (DSCR)	> 2×	$\frac{\text{Operating results before interest and depreciation (EBITDA)}}{\text{Principal repayments + borrowing interest costs}}$	This ratio measures the availability of operating cash to service debt including interest and lease payments (income statement) and principal repayments (cash flow statement).
Building and infrastructure asset renewal ratio	> 1×	$\frac{\text{Assets renewals}^b}{\text{Depreciation of building and infrastructure assets}}$	This ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation.

^aThis definition applies for NSW councils. QLDs current ratio is measured as total current assets (excluding unspent loan monies drawn down and water charges accrued but not yet levied) divided by total liabilities.

^bAsset renewals measured as investment activity in building and infrastructure assets, because Queensland councils do not provide detailed information on investments in asset replacement versus asset upgrades. This definition deviates from the TCorp report, in which asset renewals only capture investment activity in the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance.

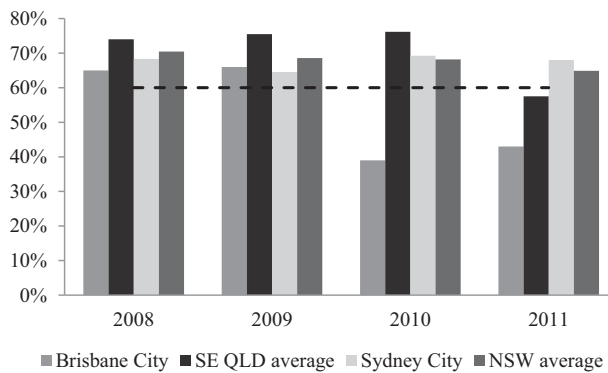
Table 3. Key performance indicators for BCC, SCC, SEQ, and NSW

	Brisbane City	Sydney City ^c	SEQ comparison group	NSW comparison group
Own-source operating ratio ($>60\%$)	Latest	68%	58%	65%
	CAGR	-9.8%	-6.1%	-2.1%
	On target ^a	50%	75.0%	88%
Unrestricted. current ratio ($>1.5\times$)	Forecast ^b	39%	54%	64%
	Latest	0.73	3.81	2.70
	CAGR	30.7%	23.9%	2.0%
Debt service cover ratio ($>2\times$)	On target ^a	0%	88%	68%
	Forecast ^b	0.95	4.98	2.81
	Latest	3.38	3.28	12.54
Building and infrastructure asset renewal ratio ($>1\times$)	CAGR	29.3%	1.3%	8.3
	On target ^a	25%	67%	100%
	Forecast ^b	4.37	4.34	15.88
	Latest	3.20	2.39	0.58
	CAGR	48.6%	17.0%	-44.9%
	On target ^a	75%	60%	53%
	Forecast ^b	4.76	3.47	0.34

^aOn target measured as the number of years, in which the respective council met the benchmark, in the past 4 years expressed as percentage.

^bShort-term forecast is estimated on applying the compound annual growth rate (CAGR) to the latest KPI measure.

^cSCC had no debt from 2008 to 2011.

Figure 1. Own-source operating revenue ratio.

continued ability to generate sufficient funds from its operating activities.

Liquidity

The unrestricted current ratio – the ratio of current assets to current liabilities – was used to measure and compare the *liquidity* of the BCC. Liquidity ensures whether short-term obligations are met – that is whether cash is readily available to run operations smoothly and whether required investments are not delayed unnecessarily. This KPI may be considered to be a more meaningful measure of liquidity because it only considers short-term assets and short-term liabilities.

Looking at Table 3, it is worth noting that BCC suffers from severe liquidity constraints with an unrestricted current ratio of 0.73 in 2011, which suggests that BCC does not have sufficient resources to pay its debts over the next 12 months. Moreover, BCC has failed to meet the established unrestricted current ratio benchmark in each of the 4 years under consideration (Figure 2). This stands in stark contrast to all other comparison groups, which comfortably meet the recognized benchmark over the equivalent 4-year period.

Although BCC's unrestricted current ratio has been steadily growing over the 4-year period (admittedly from a low base), its current growth rate is still insufficient for it to meet the established benchmark in the short term. In other words, it is projected the liquidity constraints for BCC will persist in the short term and could affect its future ability to pro-

vide services and maintain infrastructure assets for its local community. This stands in stark contrast to all other comparisons groups that do not appear to suffer from liquidity constraints.

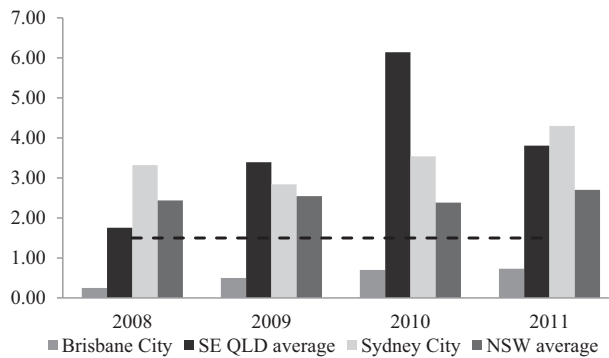
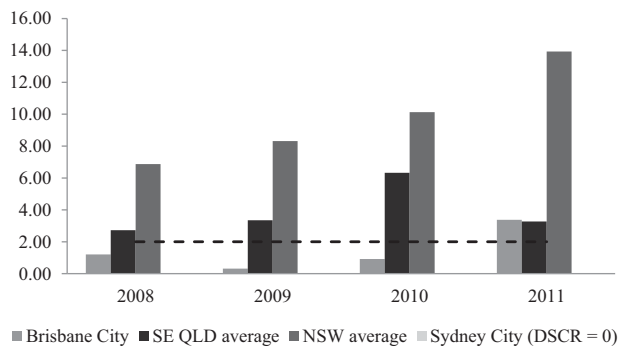
Debt Serving Ability

The debt service cover ratio (DSCR) was used to measure and compare the *debt servicing ability* of the BCC to its comparison groups. More specifically, the DSCR measures a municipality's ability to meet its 'interest and principal repayments obligations' within its existing operating earnings. The first point worth noting is that we were unable to assess the debt servicing ability of SCC because this particular council has been operating with a surplus between 2008 and 2011.

In 2011, BCC's DSCR was 3.38, which exceeded the established benchmark of 2. This means that BCC can comfortably meet its borrowing costs from its operating income. With a CAGR of 29.3%, it is projected that BCC's debt service ratio will increase in the short run to 4.37. However, this finding needs to be interpreted with care because BCC has only met this benchmark once between 2008 and 2011. In contrast, all three comparison groups have met the established benchmark in all 4 years over the same period (Figure 3).

Asset Management

The building and infrastructure renewal ratio was used to measure and compare BCC

Figure 2. Unrestricted current ratio.**Figure 3. Debt service cover ratio.**

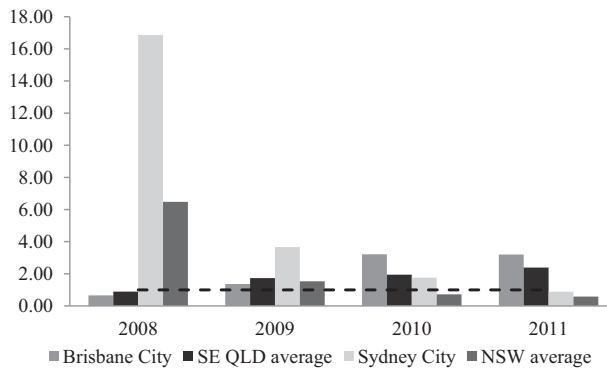
asset management. This ratio compares the expenditure of infrastructure assets relative to infrastructure depreciation. Although actual maintenance is measured conservatively (by only including capital works), the building and infrastructure renewal ratio measures all capital expenditure related to building and infrastructure assets in relation to the annual depreciation on these assets.

In 2011, BCC's renewal ratio was 3.20 (Table 3). This means that BCC's investment in new infrastructure outweighs its infrastructure deterioration by three to one. BCC has met the established benchmark twice over the 4-year period (Figure 4). Moreover, BCC and the SEQ comparison group show a continuous increase in asset management capability. For example, BCC's asset renewal ratio has grown at a CAGR of 48.6%, whereas the SEQ group of council's asset renewal rate grew at 17% per annum. At this rate, BCC's and SEQ's asset re-

newals are expected grow to 4.76 and 3.47 in the short term, respectively.

BCC's asset management performance in the past shows that it is in a position to provide adequate levels of infrastructure to its community and to continuously increase its ability to commit the required resources to support and maintain its infrastructure. However, an opposite trend is observed for the NSW comparison groups. This suggests that the NSW comparison groups' ability to commit resources to infrastructure renewal has been continuously declining over the past 4 years. SCC and NSW councils are well below the benchmark in 2011 showing that infrastructure assets are deteriorating at a faster rate than councils' ability to replace them (Figure 4).

This result, however, needs to be interpreted with some degree of caution, because asset renewal measures are defined more narrowly for NSW councils and thus provide a more

Figure 4. Building and infrastructure asset renewal ratio.

conservative measure of asset management efficiency. Notwithstanding this caveat, BCC has performed relatively well on this KPI in the last 2 years.

In sum, our financial analysis of BCC casts considerable doubts over the continuing mantra that ‘bigger is better’ in the context of contemporary Australian local government. Employing standard measures of financial sustainability, we found that between 2008 and 2011, the three comparison groups consistently ‘outperformed’ the BCC in the key areas of financial flexibility, liquidity, and debt serving ability. Moreover, these findings lend further support to the growing corpus of research that suggests that ‘bigger is not always best’.

Policy Implications

Despite the fact that Australian local government policy making has relied heavily on structural reform through forced mergers as its chief policy instrument for decades, to date no one has yet examined the relative performance of BCC compared with other like local authorities. This is surprising in several respects. In the first place, as we have seen, because BCC is by far the largest local government entity in Australia (as measured by absolute population size and by the number of households), if the claims of proponents of the ‘bigger is best’ doctrine underlying compulsory council consolidation are correct, then BCC should easily outperform comparator councils across a ma-

jority of performance indicators. In addition, the ‘natural experiment’ afforded by the dominant size of BCC relative to other analogous councils represents a most fortuitous opportunity for empirical researchers to determine whether ‘biggest is best’.

This paper has sought to fill this gap in the empirical literature on Australian local government performance, at least in terms of financial performance. The empirical results obtained in this paper from our comparative financial analysis of BCC with three comparator groupings of councils provides cold comfort to advocates of the ‘bigger is better’ creed. Indeed, we find that the BCC is outperformed in three of the four financial performance indicators invoked in our analysis (financial flexibility, liquidity, and debt serving ability) by all three comparator groups over the 4 years, 2008–2011.

Although our study is not only limited in the sense that it deals solely with financial performance, it is also restricted to four specific performance indicators from a potentially large pool of alternative fiscal measures of performance, and it should thus be accompanied by further empirical work on other non-financial aspects of municipal performance, it nonetheless provides food for thought for local government policy makers in all seven Australian state and territory jurisdictions with local government systems. If additional empirical work on other non-financial measures of performance comparing BCC to comparator councils

corroborates the findings in this paper, then this will represent a further blow to the credibility of the 'bigger is better' ideology still dominating much Australian local government policy making.

Our study is limited by the fact that it was conducted at the aggregate level and, as such, masks the inherent variability in the mix and quality of services delivered by different councils. Thus, further insights into the performance between the BCC and other councils could be gleaned by a comparative analysis of council-specific services that account for a large proportion of the council budget (e.g. local road investment and maintenance). Finally, one potential avenue for future research would be to identify and remove any impact the Queensland floods may have had on local government financial performance as it is possible that these natural disasters may, in part, explain the observed differences in the infrastructure asset renewal ratios for SEQ and NSW councils. We view this as an important area of future research.

Endnote

1. BCC and SCC are the only municipalities in Queensland and New South Wales that are classified as 'Urban Capital City'.

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