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# Table of Contents

**DISCLAIMER** .................................................................................................................. ii  
**EXECUTIVE SUMMARY** ................................................................................................. x  

**CHAPTER 1: INTRODUCTION** ......................................................................................... 1  
1.1 INTRODUCTION ........................................................................................................... 1  
1.2 PROBLEMS CONFRONTING AUSTRALIAN LOCAL GOVERNMENT ...................... 3  
1.2.1 Financial Unsustainability .................................................................................... 3  
1.2.2 Local Government Operational Efficiency ......................................................... 5  
1.2.3 Expansion of Local Government Service Provision ............................................. 5  
1.2.4 Growing Intergovernmental Complexity ............................................................... 8  
1.3 CONCLUDING REMARKS .......................................................................................... 8  

**CHAPTER 2: NATIONAL AND STATE PUBLIC INQUIRY PERSPECTIVES ON PROBLEMS AND SOLUTIONS** ......................................................................................................................... 9  
2.1 INTRODUCTION ......................................................................................................... 9  
2.2 PUBLIC INQUIRIES INTO LOCAL GOVERNMENT ................................................ 11  
2.2.1 Commonwealth Grants Commission (2001) ....................................................... 11  
2.2.2 Hawker Report (2003) .......................................................................................... 12  
2.2.3 South Australian Financial Sustainability Review Board Report (FSRB) (2005) .................................................................................................................. 12  
2.2.5 Queensland *Size, Shape and Sustainability* Review Framework (2006) .......... 13  
2.2.6 Western Australian Systematic Sustainability Study (2006) .............................. 13
| 2.2.7 PriceWaterhouseCoopers Report (2006) | 14 |
| 2.2.8 Local Government Association of Tasmania Review (2007) | 14 |
| 2.2.9 Queensland Local Government Reform Commission Report (2007) | 14 |
| 2.2.10 Productivity Commission Report (2008) | 15 |
| 2.2.11 Queensland Treasury Corporation Report (2008) | 15 |
| 2.3 ANALYSIS OF INQUIRIES IN TERMS OF TYPES OF REFORM | 15 |
| 2.3.1 Commonwealth Grants Commission (2001) Report | 16 |
| 2.3.2 Hawker Report (2003) | 17 |
| 2.3.3 South Australian Financial Sustainability Review Board Report (2005) | 20 |
| 2.3.5 Queensland Size, Shape and Sustainability Review Framework (2006) | 26 |
| 2.3.6 Western Australian Systematic Sustainability Study (2006) | 28 |
| 2.3.7 PriceWaterhouseCoopers Report (2006) | 29 |
| 2.3.8 Local Government Association of Tasmania Review (2007) | 33 |
| 2.3.9 Queensland Local Government Reform Commission Report (2007) | 35 |
| 2.3.11 Queensland Treasury Corporation Report (2008) | 37 |
| 2.4 CONCLUSIONS | 39 |
| 2.4.1 Broad Conclusions | 39 |
| 2.4.2 Financial Sustainability and Financial Reform | 40 |
| 2.4.3 Functional Reform | 40 |
| 2.4.4 Jurisdictional Reform | 41 |
| 2.4.5 Organisational and Managerial Reform | 41 |
| 2.4.6 Structural Reform | 41 |
### CHAPTER 3: STRUCTURAL REFORM AS A POLICY SOLUTION

3.1 INTRODUCTION .................................................................................................................. 43

3.2 ALTERNATIVE MODELS OF AUSTRALIAN LOCAL GOVERNMENT ........................................ 45

3.2.1 Existing Small Councils .................................................................................................. 46

3.2.2 Ad hoc Resource Sharing Models .................................................................................... 46

3.2.3 Regional Organizations of Councils ................................................................................ 47

3.2.4 Area Integration or Joint Board Models ......................................................................... 48

3.2.5 Virtual Local Governments ............................................................................................ 50

3.2.6 Agency Models .............................................................................................................. 51

3.2.7 Amalgamated Large Councils ....................................................................................... 53

3.3 EVALUATION OF AMALGAMATION ............................................................................... 54

3.4 SHARED SERVICES AND COUNCIL COLLABORATION .................................................. 65

3.4.1 Nature of Shared Services ............................................................................................. 65

3.4.2 Rationale for Shared Services ........................................................................................ 66

3.4.3 Characteristics of Local Services/Functions Suitable for Shared Service Provision ........ 69

3.4.4 Alternative Models for Shared Services ......................................................................... 72

3.5 CONCLUSION .................................................................................................................... 74

### CHAPTER 4: EMPIRICAL EVIDENCE ON SCALE ECONOMIES AND SHARED SERVICES IN LOCAL GOVERNMENT

4.1 INTRODUCTION ................................................................................................................. 75

4.2 EMPIRICAL EVIDENCE OF SCALE ECONOMIES ................................................................ 76

International evidence ........................................................................................................... 76

Australian evidence .............................................................................................................. 80

Regression Analysis .............................................................................................................. 80

South Australian Department of Local Government (1988) ................................................... 80

Local Government Commission (1986) ................................................................................. 81
4.3 EMPIRICAL EVIDENCE ON SHARED SERVICES

Australian evidence

International evidence

Implications of empirical evidence

4.4 CONCLUSION

CHAPTER 5: CASE STUDIES OF AMALGAMATION, BOUNDARY CHANGE AND SHARED SERVICES

5.1 INTRODUCTION

5.2 AMALGAMATION

5.2.1 Success: City of Onkaparinga

5.2.1 Failure: Delatite Shire

5.3 BOUNDARY CHANGES

5.4 SHARED SERVICES

5.4.1 Success: Wellington-Blayney-Cabonne Strategic Alliance of Councils (WBC)

5.4.2 Failure: New England Strategic Alliance of Councils (NESAC)

5.5 CONCLUDING REMARKS
CHAPTER 6: CRITIQUE OF THE MUNRO REPORT ................................................................. 121

6.1 INTRODUCTION ........................................................................................................... 121

6.2 OUTLINE OF THE MUNRO REPORT .......................................................................... 122

6.3 CHARACTERISTICS OF SOUTHERN TASMANIA COUNCILS IN CONTEXT .................................................................................................................. 131

3.1 Population, land area, population density and road length ........................................... 132

6.3.2 Tasmanian Council Income ...................................................................................... 133

6.3.3 Tasmanian Council Expenditure ................................................................................. 135

6.4 ANALYSIS OF THE MUNRO REPORT ‘CASE FOR CHANGE’ .................................... 138

6.4.1 Greater ‘Economic opportunities’ .............................................................................. 139

6.4.2 ‘Greater Hobart and the rural hinterland’ ................................................................ 140

6.4.3 ‘Example of strong local government’ ...................................................................... 140

6.4.4 ‘Efficiency and cost savings’ ................................................................................... 142

4.5 ‘Greater Hobart Council’ ............................................................................................ 143

6.5 CONCLUDING REMARKS ........................................................................................ 145

CHAPTER 7: CRITICAL ASSESSMENT OF DELOITTE ACCESS ECONOMICS LOCAL GOVERNMENT STRUCTURAL REFORM IN TASMANIA ................................................................. 146

7.1 INTRODUCTION ........................................................................................................... 146

7.2 IS AMALGAMATION A PRECONDITION FOR ECONOMIC PROSPERITY? ....................................................................................................................... 148

7.3 DELOITTE ACCESS ECONOMICS ‘RATIONALE AND EXPERIENCE’ IN STRUCTURAL REFORM ......................................................................................... 149

7.3.1 Population Size as a Proxy for Local Council Size .................................................... 150

7.3.2 Different Services Possess Different Cost Characteristics ....................................... 153

7.3.3 Evidence from ‘State-Specific Research and Reviews’ ............................................ 154
7.3 EVALUATION OF DELOITTE ACCESS ECONOMICS (2011)
MODELLING .................................................................................................................. 159

7.5 ASSESSMENT OF ‘BROADER BENEFITS’ IN DELOITTE
ACCESS ECONOMICS (2011) .......................................................................................... 165

7.6 ‘SUCCESSFUL IMPLEMENTATION’ OF AMALGAMATION PLANS ....................... 166

7.7 CONCLUDING REMARKS ...................................................................................... 167

CHAPTER 8: ALTERNATIVE REFORM OPTIONS FOR NTD COUNCILS ................. 168

8.1 INTRODUCTION ....................................................................................................... 168

8.2 POSSIBLE STRUCTURAL MODELS ....................................................................... 170
Existing Councils Remain Unchanged ........................................................................ 170
Ad hoc Resource Sharing Models .............................................................................. 171
Regional Organizations of Councils .......................................................................... 172
Area Integration Models ............................................................................................ 173
Virtual Local Governments ........................................................................................ 175
Agency Models .......................................................................................................... 176
An Amalgamated Large ‘Northern Council’ ................................................................ 177
Conditional Amalgamation ........................................................................................ 179
Boundary Changes ..................................................................................................... 182

8.3 RECOMMENDED STRUCTURAL REFORM FOR NTD GROUP ....................... 184
Strengthening Resource-Sharing and Shared Service Provision in NTD .................. 186
Strengthening Regional Integration and Regional Planning .................................. 187

8.4 CONCLUDING REMARKS ..................................................................................... 188

APPENDIX 8A: SURVEY INSTRUMENT 1 .................................................................. 190
APPENDIX 8B: EXAMPLE OF QUESTIONNAIRE ....................................................... 191
REFERENCES .............................................................................................................. 196
List of Tables

Table 3.1: Local Council Numbers in Australia 1910 to 2008 .................................................. 44
Table 3.2: Advantages and Disadvantages of Major Boundary Change .................................. 64
Table 4.1 Summary of International Research Findings on Scale Economies in Local Government .......................................................... 76
Table 4.2 Summary of Research Findings on Scale Economies in Australian Local Government .................................................................................. 80
Table 4.3: Australian Empirical Evidence on Shared Services Arrangements .......................................................... 90
Table 5.1: WBC records benefit analysis – quantifiable ............................................................. 113
Table 6.1: Overview of Tasmanian Council Characteristics, 2009/10 ........................................ 132
Table 6.2: Local government areas by population, rates and total incomes, 2009/10 .............. 134
Table 6.3: Local government areas by population, council expenses and employment, 2009/10 ........................................................................ 136
Table 6.4: Council Indicator Comparison 2010/11 ................................................................... 137
Table 7.1: Reproduction of Table 4.3 ‘Tasmanian council expenditure by purpose’ ......................... 162
EXECUTIVE SUMMARY

This Report seeks to provide a synoptic, readily accessible account of the major problems confronting all Australian local government jurisdictions, including Tasmanian local government, together with the perspectives from the academic literature and the host of recent public inquiries into the nature of these problems and the various policy solutions which have been proposed. Given the vociferous campaign in Tasmania aimed at widespread local government amalgamation, focus falls on the efficacy of structural reform as a means of tackling the problems facing contemporary local government.

The Report examines different possible structural models of local government suitable for Australian (and Tasmanian) conditions, it evaluates amalgamation as a method of improving the efficiency, effectiveness and financial sustainability of local government, boundary changes, shared services and other forms of council collaboration as structural alternatives to amalgamation.

The Report provides a detailed discussion of the available Australian and international empirical evidence on (a) scale economies in local government and (b) shared services in local government in order to inform assessment of claims made on the effects of larger scale in local government service provision. In order to give some idea as to how alternative approaches to structural change work in practice, the Report also provides synoptic ‘case studies’ of successful and unsuccessful council amalgamation, boundary changes, and shared service entities.

Against this background, the Report concludes by evaluating feasible policy options for the NTD (Northern Tasmanian Development) group of councils, ranging from the maintenance of the status quo through to boundary changes. It evaluates these options as follows:

The Report provided an evaluation of the seven possible structural options contained in the Dollery and Johnson (2005) typology, as well as the conditional amalgamation and boundary change options. It drew the following conclusions:

**Existing Councils Remain Unchanged:** In the NTD case, since resource sharing and shared service arrangements already exist, this model does not represent the status quo. Even if it did, short of claiming that improvement in NTD council performance was not possible, it would be difficult to justify ignoring any effort at progress. It is thus concluded that simply striving to maintain the status quo is neither a suitable nor viable policy objective for NTD councils.

**Ad hoc Resource Sharing Models:** Resource sharing and shared service arrangements already exist amongst NTD councils. Given the high degree of heterogeneity amongst NTD, this provides excellent real-world evidence that NTD councils can cooperate effectively, despite their diversity. Several steps should be taken by NTD councils: (a) a detailed audit of current arrangements to evaluate and improve their performance and (b) a survey of all mayors and CEOs on which additional resource sharing and shared service arrangements could be profitably pursued. A useful instrument designed specifically for this purpose that has worked well with other groups of councils is included in Appendix 8A to this Report.

**Regional Organizations of Councils (ROCs):** The NTD is already a ROC-style organisation performing many of the functions undertaken by traditional ROCs and it has effective governance and administrative arrangements. It could thus take on additional shared service and resource sharing arrangements in its own right. It should also assume a regional development, integration and planning role by (a) fostering cohesive region-wide policymaking to stimulate economic growth and promote regional development and (b) networking with Australian and Tasmanian government agencies, business groups and individual corporations.
**Area Integration Models:** The prospects of success for an NTD area integration model are not promising because: (a) the NTD spatial area is too large; (b) due to substantial differences in size, ‘community of interest’ and other factors between its members, it would be difficult to reconcile the competing needs of constituent councils; and (c) it would necessitate a single headquarters and concentration of its workforce in a given centre with grave negative consequences for the other seven local government areas.

**Virtual Local Governments:** Virtual local government would be even more disruptive than an area integration model since a virtual structure for the NTD group of councils would *inter alia* involve extensive outsourcing of most local government functions. It is questionable whether the requisite skills could be acquired through the market at reasonable prices over the long term.

**Agency Models:** An agency model system would require Tasmanian government willingness to participate, not presently evident. It would also represent extremely radical structural re-organisation, probably a ‘bridge too far’ for the NTD or any other group of councils.

**An Amalgamated Large ‘Northern Council’:** The ‘unconditional’ amalgamation of all NTD councils into a single undifferentiated local government entity is problematic for a number of reasons, including: (a) existing evidence suggesting that in non-metropolitan settings amalgamation is not suitable for constellations of councils characterised by a high degree of heterogeneity in terms of population size, spatial area, community of interest, etc.; (b) most NTD councils and their local communities would actively oppose any planned amalgamation and the process would thus prove bitter and divisive; (c) the NTD geographical area is too large for a single local authority to operate efficiently; (d) direct and indirect costs would be prohibitive; and (e) legitimate concerns would exist over the continuity of local democracy for small communities. It is thus argued that unconditional amalgamation is not a suitable policy option.

In addition, the Report considered the conditional amalgamation and boundary change options:

**Conditional Amalgamation:** Conditional amalgamation requires the consent of affected local authorities. In the event of NTD councils unanimously agreeing to a conditional amalgamation,
the exact conditions imposed would be a matter for negotiation between the councils. Should unanimity not be reached, then obviously conditional amalgamation would not proceed. Since the prospects for agreement amongst NTD councils on amalgamation are poor, full agreement on the requisite conditions is even less likely.

**Boundary Changes:** Unanimously agreed boundary changes by all affected councils obviously represent no problem and should be encouraged since all participants adjudge that their communities will be better off as a consequence. By contrast, extreme care should be exercised in the case of state-imposed boundary changes forced on unwilling councils. However, state-imposed boundary changes forced on unwilling local authorities containing segments of a common urban area, such as a regional centre where suburban growth has seen urban development spread over council boundaries into previously rural adjoining local government areas, may be reasonable, or complete ‘doughnut’ councils, should be considered. Accordingly, consolidation of urban areas with a strong community of interest can be justified, despite opposition, provided rural councils denuded of their urban component are not fatally undermined in terms of financial sustainability. This requires value judgements be made on a case-by-case basis once details of the proposed boundary changes are made clear. Decisions cannot be made on an *a priori* basis.

The Report proposes two main courses of action:

- It recommends that the NTD group should expand substantially resource sharing and shared service arrangements, and investigate the best ways to achieve this objective. It suggests that the NTD conduct a survey of all mayors and CEOs on resource sharing and shared service arrangements currently in existence and on which resource sharing and shared service arrangements should be pursued. It recommends a survey instrument be used which has been designed for this purpose and worked well with other groups of councils.

- It recommends that that the NTD group should concentrate even more on regional advocacy, regional integration, regional development, regional planning
and other regional initiatives. Moreover, it urges the NTD to consult successful models used elsewhere across comparable groups of councils, such as G21 and Townsville Enterprise.

The Report is structured as follows:

Chapter 1 provides a synoptic discussion of the main policy problems confronting all Australian local government. Chapter 1 has two main parts. Section 1.2 examines the four main problems confronting Australian local government, including Tasmanian local government. Chapter 1 ends with some brief concluding comments in Section 1.3.

Chapter 2 is divided into four main parts. Section 2.2 provides a synoptic description of each of the inquiries considered in chronological order. Section 2.3 conducts a more detailed analysis of each inquiry in terms of its bearing on (a) financial reform; (b) functional reform; (c) jurisdictional reform; (d) organizational/management reform; and (e) structural reform. Chapter 2 ends in section 2.4 with some general conclusions on the implications of these inquiries for local government.

Chapter 2 concludes that all Australian local government jurisdictions are afflicted by severe financial distress and the primary symptom of ongoing financial unsustainability resides in the large and growing local infrastructure backlog. There is thus a compelling case for policy intervention aimed at alleviating the problem. Policy intervention must take two main forms: (i) policy designed to remove, or at least reduce, the local infrastructure backlog and (ii) policy structured to reduce ongoing financial problems. Under both (i) and (ii), argument still continues over whether this should best be done through larger intergovernmental transfers (PWC 2006), more income-raising latitude bestowed on local government (NSW LGI 2006), greater ‘tax effort’ exercised by local government under its existing revenue-raising powers (PC 2008), more borrowing, or some combination of these options.

With respect to structural reform, Chapter 2 demonstrates that, in general, the public inquiries argued that alternative models of council cooperation should be pursued to achieve scale and scope economies since population density, and not population size, constituted a key element in council cost structures. They thus unanimously recommended that regional collaborative arrangements other than forced amalgamation be pursued.

Chapter 3 addresses the problem of structural reform, including alternative models for local government, an assessment of amalgamation, encompassing the findings of the various public inquiries into local government on compulsory consolidation, shared services and other forms of council collaboration as the main structural alternative to amalgamation. Chapter 3 thus considers structural reform in the broad sense rather than the narrower amalgamation per se.
Chapter 3 has four main parts. Section 3.2 outlines different possible structural models of Australian local government suitable for Australian (and Tasmanian) conditions. Section 3.3 provides an evaluation of amalgamation as a method of improving the efficiency, effectiveness and financial sustainability of local government, as well as an assessment of boundary changes through state legislation intended to modify the structure of local government. Section 3.4 discusses shared services and other forms of council collaboration as the main structural alternative to amalgamation. Chapter 3 ends with some brief concluding comments in section 3.5.

Chapter 3 concludes that compulsory consolidation has not met with expectations, a fact recognized in all the recent state and national inquiries into local government. The most promising alternative to forced amalgamation resides in shared services and other forms of council collaboration. Moreover, it shows that it is possible to identify fruitful candidates for shared service delivery. However, whether shared services generate substantial economies of scale, cost savings and enhanced service provision depends critically on available empirical evidence on scale economies and shared services in local government.

Chapter 4 reviews the relevant Australian and international empirical evidence on economies of scale and shared services models. Chapter 4 is divided into three main parts. Section 4.2 provides a review of the Australian and international empirical literature on economies of scale. Section 4.3 reviews the empirical evidence of shared service models in Australia and abroad. Chapter 4 ends with some brief closing remarks in Section 4.4.

Chapter 4 finds that, in general, labour-intensive services, such as council rangers, generate few scale economies because their idiosyncratic nature means that an increased volume of services may require a correspondingly larger number of workers. In contrast, capital-intensive services, like domestic water supply, usually yield substantial economies of scale since the cost of fixed assets can be spread across a larger number of households. However, the existing body of research on economies of scale for labour-intensive and capital-intensive local government services is mixed and inconclusive.

Chapter 5 builds on Chapter 3 which considered structural reform in Australian local government by delineating alternative structural models, considering the debate on forced amalgamation, boundary changes, and shared services, as well as the analysis in Chapter 4 on the empirical evidence on shared services and scale economies in local government services and functions. Chapter 5 extends this line of inquiry by examining real-world case studies of successful and unsuccessful amalgamation, boundary change and shared service models.

Chapter 5 is divided into four main parts. Section 5.2 sets out two case studies of amalgamation in the form of the successful South Australian City of Onkaparinga merger and the disastrous Deloitte Shire amalgamation and de-amalgamation in Victoria. Given the fact that only a single case study of boundary change has been examined in the scholarly literature, section 5.3 considers the case of boundary change involving the South Australian City of Mount Gambier and the District Council of Grant. Section 5.4 examines two case studies of shared services: Wellington-Blayney-Cabonne Strategic Alliance of Councils (WBC) and the New England Strategic Alliance of Councils (NESAC). Chapter 5 ends with some brief concluding remarks in section 5.5.

Chapter 5 argues that these case studies offer valuable insight into the causes of success and failure, with a common theme in successful instances that the local authorities involved acted voluntarily and actively sought to make the new arrangements work well.

Chapter 6 provides a detailed critique of the Munro Report or Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania, which recommended that a Greater Hobart Council be established comprised of Hobart, Glenorchy, Clarence, Kingborough and Brighton.
Chapter 6 is divided into four main parts. Section 6.2 provides a synoptic description of the Munro Report. Section 6.3 places the Brighton Council in the comparative context of (a) all Tasmanian local councils and (b) local councils in the proposed new Greater Hobart Council and demonstrates that the Brighton Council is the best performed not only in the Greater Hobart council area, but also in all Tasmania. Section 6.4 evaluates of the ‘Case for Change’ set out in Chapter 6 of the Munro Report. Chapter 6 ends in Section 6.5 with some brief concluding comments.

Chapter 6 argues that the Munro Report was gravely mistaken because it did not consider the substantial literature on structural reform in local government, including empirical evidence on economies of scale in local government and empirical evidence on the observed outcomes of local government amalgamation. It appeared unaware that (a) council mergers seldom generated cost savings and mostly induced higher cost structures (b) scale and scope economies exist in only some local government functions and (c) most of the possible gains attendant upon council size can be achieved through shared services and other forms of inter-council collaboration. Chapter 6 concludes that that the Munro Report is deeply flawed and there is no conceptual or empirical case for compulsory amalgamation aimed at the establishment of a Greater Hobart Council. However, a need does exist for a metropolitan body, such as the STCA, empowered to act in a metropolitan-wide role in the Greater Hobart area in advocacy, coordination, planning, and other functions.

- ‘Structural reform of councils in Tasmania could allow for efficiency gains of up to 35% if appropriately conceived and effectively managed. Past experience in Tasmania and elsewhere in Australia suggests gains of at least 10 and 20%’.

- ‘Benefits will be achieved through economies of scale, a broadened scope of operations and improved specialisation, creating potential for enhanced financial sustainability, more efficient governance and greater competency within councils’.

- ‘Community benefits will be achieved through a greater capacity to deliver improved and potentially increased service levels to a broader section of the community, while either reducing or slowing the rate of increase of council rates’.

Given the fact that the strident campaign for radical amalgamation of Tasmanian local government by the Property Council and other ‘self-interest’ groups has relied heavily on the veracity of claims in Local Government Structural Reform in Tasmania, Chapter 7 examines in detail the Deloitte Access Economics Report analysis.

Chapter 7 is divided into six main parts. Section 7.2 considers Chapter 2 of Local Government Structural Reform in Tasmania which seeks to set the scene for the remainder of the Deloitte Access Economics (2011) report based on the claim that larger local councils are a precondition for more rapid economic growth. Section 7.3 evaluates the ‘rationale and experience’ for local government amalgamation presented in Chapter 3 of Local Government Structural Reform in Tasmania in which the Deloitte Access Economics (2011) report described the evidence on amalgamation found in then academic literature and various state reviews of structural reform. Section 7.4 evaluates the modelling conducted by Deloitte Access Economics (2011). Section 7.5 briefly canvasses the ‘broader benefits’ presented by Deloitte Access Economics (2011) in Chapter 4. Section 7.56 considers section 6 of the Deloitte Access Economics (2011) report on successful implementation’. Chapter 7 ends in section 7.7 with some brief concluding remarks.
Chapter 7 concludes that the analysis in the Deloitte Access Economics (2011) Report has numerous problems, including a neglect of the empirical literature on performance appraisal in local government. However, the most damaging flaw in the Deloitte Access Economics Report lay in its empirical modelling, which was fatally compromised by its use of population size rather than population density in its statistical estimations. As a consequence, its estimated cost savings projected after an amalgamation cannot be taken seriously.

The Report concludes in Chapter 8. Chapter 8 is divided into three main parts. Section 8.2 provides a synopsis of hypothetical models which any group of councils contemplating structural reform could consider, ranging from the maintenance of the status quo through to compulsory amalgamation and offers opinion on which of these might be suitable for the NTD group of councils. From this all-inclusive array of theoretical models, section 8.3 sets out a recommended approach for the NTD group of councils. Chapter 8 ends with some brief concluding remarks focused on the NTD group seizing the initiative to decide its own future.

Chapter 8 sets out and assesses the range of possible structural reforms the NTD group could adopt. It argues that, given the high degree of diversity amongst the NTD group of councils, as well as the need for concerted willing and voluntary effort on the part of all member councils, the NTD group should:

- Expand substantially resource sharing and shared service arrangements, and investigate the best ways to achieve this objective. It has been suggested that the NTD conduct a survey of all mayors and CEOs on resource sharing and shared service arrangements currently in existence and which resource sharing and shared service arrangements should be pursued.

- Concentrate even more on regional advocacy, regional integration, regional development, regional planning and other regional initiatives. One way to achieve more effective regional development is to follow successful models used elsewhere across comparable groups of councils, such as G21 and Townsville Enterprise.
Chapter 8 underlines the need for the NTD group to act decisively to protect its capacity to determine its own future. It should adopt vigorous measures to thwart the vociferous forced amalgamation campaign being run by the Tasmanian branch of the Property Council of Australia. It recommends (a) the NTD make sure that the findings of Chapter 7 of this Report on the Deloitte Access Economics (2011) *Local Government Structural Reform in Tasmania* be widely publicised through the media, including local media; (b) it suggests that NTD member municipalities make their local communities acutely aware of the threat to local autonomy posed by the Property Council of Australia forced amalgamation program; and (c) once these steps have been taken, it recommends that a survey of local community opinion be undertaken.
Chapter 1: INTRODUCTION

1.1 INTRODUCTION

Australian local government plays a pivotal role not only as a major element in the democratic structure of the country, but also as a significant economic entity in its own right. As the third tier of government in the Australian federation, local government accounts for more than $10 billion in taxation, employs in excess of 170,000 people across seven different state and territory systems, and provides an essential range of local services vital to national wellbeing (Commonwealth of Australia, 2010: 3/4). However, despite its central importance, local government has always been the ‘poor cousin’ of its more august national and state counterparts in terms of the scholarly analysis which it has traditionally attracted. This is regrettable for various reasons, not least because local government across all states and territories, including Tasmania, faces daunting problems which require urgent attention.

At least three factors have combined to place contemporary Australian local government in an invidious position:

- Inexorable and intensifying financial pressures mean that the status quo simply cannot be sustained indefinitely. Given these monetary pressures, it is no exaggeration to stress that existing arrangements have only been maintained at the cost of steadily depreciating physical infrastructure (Byrnes, Dollery, Crase and Simmons, 2008).

- State and territory governments across Australia remain concerned over the operational efficiency of municipalities, particularly small regional, rural and remote councils (Dollery and Crase, 2004). This concern has engendered a heavy emphasis on compulsory council amalgamation as the primary engine in the drive for more cost effective local services. Thus, during the ‘nineties South Australia, Tasmania and Victoria all underwent episodes of compulsory consolidation of differing degrees of intensity. Similarly, over the past decade,
forced amalgamation has occurred in NSW, Queensland and the Northern Territory.

- Changes in the respective enabling acts of the different Australian local government systems have witnessed a significant expansion in the role of local government and growing complexity in its relationships with state and federal governments (Dollery, Wallis and Allan, 2006). Moreover, differences in the functions and responsibilities of the various state and territory municipal systems have widened over time, and the state government oversight mechanisms are now often quite dissimilar, severely diminishing the prospects of a uniform national approach to local governance (Dollery, O’Keefe and Crase, 2010). An uneven devolution of additional functions to local government within and between the different states and territories further complicates an already incoherent network of intergovernmental relations.

Chapter 1 attempts to provide a synoptic discussion of the main policy problems confronting all Australian local government systems, including Tasmania. The discussion is deliberately broad ranging, drawing largely on the scholarly literature and official reports and its seeks to set the scene for the remainder of this Report, especially the discussion in Chapter 2 which focuses specifically on the findings and recommendations of the host of national and state public inquiries into Australian local government over the past decade, which include the Local Government Association of Tasmania (LGAT) (2007) Review of the Financial Sustainability of Local Government in Tasmania.

Chapter 1 is comprised of two main parts. Section 1.2 sets out the four main problems confronting all Australian local government systems, including the Tasmanian local government system. Chapter 1 ends with some brief concluding comments in Section 1.3.
1.2 MAIN PROBLEMS CONFRONTING AUSTRALIAN LOCAL GOVERNMENT

1.2.1 Financial Unsustainability

Acute financial pressures mean that the *status quo* in local government simply cannot be sustained indefinitely. The Commonwealth Grants Commission (CGC, 2001, pp.52-53) identified five main reasons for financial distress in Australian local government:

- ‘Devolution’ – where a higher sphere of government gives local government responsibility for new functions;

- ‘Raising the Bar’ – where a higher tier of government, through legislative or other changes, raises the complexity and/or standard at which local government services must be provided, thereby increasing the cost of service provision;

- ‘Cost Shifting’ – either where a municipal council agrees to provide a service on behalf of a federal or state government (with funding subsequently reduced or stopped) or where some other tier of government ceases to provide an essential service thus forcing a local authority to take over;

- ‘Increased community expectations’ – where a given community demands improvements in existing municipal services or the provision of a new service; and

- ‘Policy Choice’ – where specific councils voluntarily expand and/or enhance their services.

In addition, Johnson (2003) has argued that councils are also partly responsible for their financial plight. In particular, numerous councils in all state jurisdictions have been reluctant to set their rates and other fees and charges at realistic and sustainable levels.

Given these financial factors, in general existing arrangements have only been maintained at the cost of steadily depreciating physical infrastructure. In its *Rates and Taxes: A Fair Share for*
Responsible Local Government, the Hawker Report (2004, p. 59) observed that ‘there is a significant infrastructure renewal gap across the country and asset standards are decreasing’.


It is also widely recognised that the financial plight of local government would have been worse had it not been for the Howard Government’s Roads to Recovery (R2R) funding program. The R2R began as a response to the problem of a local road stock which was reaching the end of its useful life and the funding required to renew local roads was deemed beyond the capacity of local government. As a consequence, in November 2000 the Commonwealth announced that it would inject $1.2 billion into local road renewal, 70% (or $850 m) of which was to be spent in rural and regional Australia (DOTARS, 2003, p. 1). The R2R program was initially designed to cover the period January 2001 through to June 2005. However, following a review of Commonwealth transport infrastructure funding in 2002, R2R was extended (under AusLink).
1.2.2 Local Government Operational Efficiency

State governments remain concerned over the operational efficiency of municipalities, particularly small regional, rural and remote councils. A key feature of local government reform across Australia in this regard has been its heavy emphasis on amalgamation as the primary engine for more cost effective local services (Vince, 1997). Thus, during the 1990s South Australia, Tasmania and Victoria all underwent episodes of municipal consolidation of differing degrees of intensity (May, 2003). More recently, a program of compulsory amalgamation was conducted in NSW, in 2007 Queensland experienced radical compulsory amalgamation, and in 2008, the Northern Territory underwent massive forced consolidation. Western Australian local government remains the only unscathed Australian local government jurisdiction. The results of these amalgamation episodes have not met expectations. The effectiveness of structural reform in general, and amalgamation in particular, will be taken up in greater detail in Chapter 3.

1.2.3 Expansion of Local Government Service Provision

Australian local councils have traditionally provided a comparatively narrow range of local ‘services to property’ financed through a complex mix of property taxes, grants, and fees and charges. However, amendment of the different Local Government Acts across all Australian state and territory local government systems has created the legislative scope for a much greater role for local municipalities. As a result, the power of general competence embodied in these statutes has facilitated a dramatic transformation in the composition of local government service provision away from traditional services to property towards human services.

The Hawker Report (2004, p. 9) observed that it had discerned not only increasing diversity across Australian local government service provision, but also an ‘expansion of the roles beyond those traditionally delivered by the local sector’. This shift in emphasis in service provision had two main characteristics:

- Local authorities had assumed responsibility for more social issues, including ‘health, alcohol and drug problems, community safety and improved planning and accessible transport’.
• Councils were increasingly active in the application and monitoring of regulation, especially in ‘development and planning, public health and environmental management’.

In its *Local Government National Report, 2003-04*, the (then) Commonwealth Department of Transport and Regional Services (DOTARS) (2005, p. 2) also recognized the changing role of Australian local government, noting that local authorities are ‘increasingly providing services above and beyond those traditionally associated with local government’. It observed that ‘local government now delivers a greater range of services, broadening its focus from “hard” infrastructure provision to spending on social services such as health, welfare, safety, and community amenities’.

The Commonwealth Grants Commission (CGC) (2001) calculated trends in the composition of municipal outlays across Australian local government by function over the period 1961-62 to 1997-98. It found that councils had expanded human service functions sharply relative to their longstanding ‘services to property’ focus over a 35-year time period. For example, ‘general public services’ fell from slightly in excess of 20% of expenditure in 1961-62 to around 13% in 1997-98 and the decline in ‘transport and communication’ was even more pronounced.

The CGC (2001, pp. 53-4) ascribed four main characteristics to the observed changes in the composition of local government expenditure:

• It comprised a continuous shift from ‘property-based services to human services’.

• The relative weight of ‘recreation and culture’ and ‘housing and community amenities’ had increased to about 20% of expenditure in each case.

• Expenditure on roads declined from more than 50% in the 1960s to slightly more than 25% by 1997-98.
• Expenditure on ‘education, health, welfare and public safety’ expanded.

The Commission concluded that ‘the composition of services being provided by local government has changed markedly over the past 30-35 years’. In sum, ‘local government is increasingly providing human services at the expense of traditional property-based services (particularly roads)’.

These trends appear to have continued. For example, the NSW Independent Inquiry (2006, Chapter 7, p. 153) observed that changes in local government expenditure since 1995-96 contained three noteworthy features:

• The ‘fastest growing activities have been housing and community amenities, public order and safety, and economic affairs, particularly within Sydney City’.

• ‘Transport and communications (largely road maintenance and depreciation, though not necessarily renewal) had a marked increase in 1996-97, but has stabilised since then’.

• ‘Health’ and ‘mining, manufacturing and construction’ both fell relative to the CPI.

It is thus evident that a significant change has occurred in the composition of the services provided by Australian local government. However, a caveat to this conclusion is warranted. These aggregate trends in the service mix disguise the high degree of diversity in municipal service provision between different local government systems across Australia, between metropolitan, regional, rural and remote local authorities, and between individual councils within each of these categories. For instance, water supply and sewerage is a local government responsibility in some Australian jurisdictions, but not in others. Similarly, municipalities spatially distant from major urban centres often provide services previously supplied by Commonwealth agencies and state governments, such as aged care facilities, postal services and
even facilities for general practitioners (see, for example, Dollery, Wallis and Akimov, 2010). A much more detailed analysis of both the change in focus of Australian local councils and an explanation for this phenomenon has been advanced by Dollery, Wallis and Allan (2006) in ‘The Debate That Had to Happen But Never Did: The Changing Role of Australian Local Government’, published in the *Australian Journal of Political Science*.

### 1.2.4 Growing Intergovernmental Complexity

As we noted in section 1.1, over the past few decades, significant legislative changes in the respective enabling acts of the different local government systems has not only contributed to the expansion in the roles of local government, but also a growing complexity in its relationships with state and federal governments. For instance, the *Local Government National Report, 2000-01* outlined the highly complicated intergovernmental structures involving the Council of Australian Governments (COAG), over forty Commonwealth-State Ministerial Councils and forums, the Local Government and Planning Ministers’ Council, and many other ministerial councils, many of which impinge directly on the activities of local government. Moreover, differences in the functions and responsibilities of the various state and territory municipal systems have increased over time, and the state government oversight mechanisms now vary significantly, crueling the prospects of a national approach to local government regulation. Finally, different degrees of devolution of extra responsibilities to local councils in different states and territories have served to complicate a confused network of intergovernmental relations.

### 1.3 CONCLUDING REMARKS

Chapter 1 has attempted to set the scene for a more detailed examination of the major problems confronting Australian local government and potential solutions to these problems. In Chapter 2 we turn our attention to the findings and recommendations of the numerous national and state public inquiries into Australian local government over the past decade. This body of material includes the LGAT (2007) *Review of the Financial Sustainability of Local Government in Tasmania* and serves to demonstrate that all Australian state and territory jurisdictions face much the same problems.
CHAPTER 2: NATIONAL AND STATE PUBLIC INQUIRY PERSPECTIVES ON PROBLEMS AND SOLUTIONS

2.1 INTRODUCTION

Chapter 1 identified the four major problems afflicting all Australian local government jurisdictions, of which financial sustainability is by far the most serious problem. But what policy solutions have been proposed to tackle these thorny problems? In seeking answers to this question, it is thus most fortunate that the past decade has witnessed a host of national and state inquiries into local government which have not only provided valuable insights into the problems experienced by the sector, but also generated a range of policy recommendations for tackling these problems. Beginning with Commonwealth Grants Commission’s (CGC) (2001) Review of the Operation of Local Government (Financial Assistance) Act 1995 early in the new millennium, at the national level, we have seen the House of Representatives Standing Committee on Economics, Finance and Public Administration (‘Hawker Report’) (2004) Rates and Taxes: A Fair Share for Responsible Local Government, the PriceWaterhouseCooper (PWC) (2006) National Financial Sustainability Study of Local Government and the Productivity Commission’s (PC) (2008) Assessing Local Government Revenue Raising Capacity.

Taken together these documents present a wealth of research into contemporary Australian local government which can not only provides analytical insight into the complexities of modern local government, but can also inform public policy making. It is thus important to examine the findings of these inquiries, determine the common issues, identify patterns of policy recommendations, and uncover recurring unresolved matters.

A useful way of organising the analysis of local government and associated recommendations for local government reform in the inquiry reports is to follow the fivefold typology developed by Dollery, Garcea and LeSage (2008) in their comparative study of local government systems in Australia, Britain, Canada, Ireland, New Zealand and the United States. They distinguished between financial reforms, functional reforms, jurisdictional reforms, organisational and managerial reforms, as well as structural reforms.

In terms of the Dollery, Garcea and LeSage (2008) taxonomic system:

- **Financial reform** consists of changes to the financial circumstances of local government, including changes to revenue sources (i.e. ‘own-source’ revenue and grants), expenditure (i.e. financial responsibilities and financial restrictions) and financial management.

- **Functional reform** involves changes in the number or types of functions performed by local government.

- **Jurisdictional reform** consists of changes to the authority of local government, including general competency powers, bylaw making powers, etc.

- **Organisational and managerial reform** involves changes to the administrative, executive, and management processes of local council.
• **Structural reform** consists of changes to the boundaries, numbers and types of local authorities.

Chapter 3 considers only financial reform which was by far the major concern of the bulk of the public inquiries. By contrast, Chapter 4 considers functional reform, jurisdictional reform, organisational and managerial reform, as well as structural reform.

Chapter 2 is divided into four main parts. Section 2.2 provides a synoptic description of each of the inquiries considered in chronological order. Section 2.3 conducts a more detailed analysis of each inquiry in terms of its bearing on (a) financial reform; (b) functional reform; (c) jurisdictional reforms; (d) organizational/management reforms; and (e) structural reform. Chapter 2 ends in section 2.4 with some general conclusions on the implications of these inquiries for local government.

### 2.2 PUBLIC INQUIRIES INTO LOCAL GOVERNMENT

In this section of Chapter 2, we briefly summarise (a) why each inquiry was established; (b) the approach adopted; (c) the main conclusions and recommendations; and (d) any significant responses to the inquiry.

#### 2.2.1 Commonwealth Grants Commission (2001)

On 1 June 2000, the CGC was requested to review the effectiveness of the Local Government (Financial Assistance) Act 1995. Under the Act, the Commonwealth provides Financial Assistance Grants (FAGs) through the states to local government using general purpose grants and a local roads grant. The CGC presented its final report on 30 June 2001. The CGC approached its task from the national perspective of the efficacy of Commonwealth funding of local government. It argued that since the expenditure needs of local government exceeded its revenue raising capacity, continued federal funding of local government was necessary.

The CGC recommended the continuation of Commonwealth funding arrangements. While no specific action followed the CGC (2001), it nonetheless represented a landmark in the analysis of
the financial sustainability of Australian local government, with its taxonomy of the causes of fiscal crisis in local government set to become the benchmark in the debate.

### 2.2.2 Hawker Report (2003)

On 30 May 2002, the Commonwealth requested the House of Representative Economics, Finance and Public Administration Committee to inquire into ‘cost shifting’ as well as the findings of the CGC (2001). The Terms of Reference stressed ‘cost shifting onto local government by state governments and the financial position of local government’ and obliged the Committee to investigate inter alia the roles and responsibilities of local government, current funding arrangements, the capacity of the sector and the scope for rationalisation. The Hawker Committee hinged on submissions since it had limited independent research capacity and it was highly politicised in its deliberations. An unfortunate consequence was that the Hawker Report (2003) made no direct estimates of the magnitude of cost shifting, relying instead on submissions from interested parties.

It made 18 separate Recommendations, the most important of which was Recommendation 6 prescribing an ‘intergovernmental agreement on cost shifting’. The only tangible policy change appears to have been the 2006 Intergovernmental Agreement by the Commonwealth, state governments and local government, which seems to have stemmed from the Hawker Report (2003).

### 2.2.3 South Australian Financial Sustainability Review Board Report (FSRB) (2005)

The FRSB (2005) proposed 62 formal recommendations, largely around financial sustainability. Very little concrete action followed the FSRB (2005). However, it had far-reaching ramifications for Australian local government since almost all other state jurisdictions held inquiries patterned on the FRSB (2005) model.


On 19 October 2005 the NSW LGSA announced an Independent Inquiry into the Financial Sustainability of NSW Local Government under Percy Allan. Its Final Report was released in early May 2006. In contrast to the FSRB (2005), the Allan Inquiry considered a broader range of questions and adopted a much less accounting orientated approach, although it did commission an Access Economics (2006a) report *Local Government Finances in NSW: An Assessment*.

The Allan Report made 49 recommendations, the most important of which was Recommendation 7 dealing with funding the massive infrastructure backlog in NSW. No official response followed the Allan Report.

2.2.5 Queensland *Size, Shape and Sustainability* Review Framework (2006)

In 2004, the LGAQ considered the long-run viability of councils. A *Discussion Paper* was released on 3rd March 2005 and a Special Conference held in June 2005, which led in turn to the *Size, Shape and Sustainability (SSS)* Review Framework, set out in the *Size, Shape and Sustainability: Guidelines Kit* (LGAQ, 2006). However, on 17 April 2007 the Queensland government unilaterally terminated the SSS program and established a Reform Commission to recommend forced amalgamation.

As its basic approach, the SSS program developed ‘sustainability indicators’ and the LGAQ (2006) set out key values for sustainability indicators and measures to achieve these outcomes. The SSS program was abruptly terminated without any response.

2.2.6 Western Australian Systematic Sustainability Study (2006)

In January 2006, WALGA commissioned the *Systemic Sustainability of Local Government* to report on the WA local government system, emphasising financial sustainability. The final report
was completed in December 2006. WALGA (2006) was supplemented with a report by Access Economics (2006) *Local Government Finances in Western Australia*.

WALGA (2006) set out a series of recommendations, which included its Regional Model. The WA Government withdrew its support for WALGA (2006) and instead proposed a voluntary amalgamation program.

### 2.2.7 PriceWaterhouseCoopers Report (2006)

ALGA contracted PWC to prepare an analysis of Australian local government which assessed the viability of the sector, identified key financial issues and developed recommendations for improved financial sustainability. The PWC (2006) report was completed in November 2006. In its methodology, PWC (2006) built on the earlier inquiries and developed its own sample of ‘representative councils’.

PWC (2006) made a series of ‘internal reform’ recommendations and ‘external finance’ recommendations. There was no official response to its recommendations.

### 2.2.8 Local Government Association of Tasmania Review (2007)


Access Economics made a series of recommendations, focused on financial sustainability and financial governance. Few recommendations were implemented.

### 2.2.9 Queensland Local Government Reform Commission Report (2007)

The Queensland Government forsook the SSS process in favour of forced amalgamation and appointed a Local Government Reform Commission to make recommendations on compulsory mergers by August 2007. The rationale for this decision was explained in *Local Government Reform* (Department of Local Government, Planning, Sport and Recreation (DLGPS&R)) (2007)
and rested on a claim that local councils had not proceeded with sufficient haste. The Reform Commission invited submissions from councils and considered these submissions.

The Reform Commission recommended the number of local councils be compulsorily reduced from 157 to just 73 organizations. Virtually all of these proposed amalgamations were adopted by the Queensland Government.

2.2.10 Productivity Commission Report (2008)

April 2007, the Commonwealth requested the Commission to examine the capacity of different types of council to raise revenue and the factors contributing to this capacity and variability in capacity over time. The PC Report (2008) was completed in April 2008. Following its usual methodology, the PC employed submissions from the sector and its own strong research team, augmented by specialists in local government.

Since it focused on the hypothetical question of revenue-raising capacity, rather than observed ability, its recommendations were theoretical rather than practical. No action followed PC Report (2008).

2.2.11 Queensland Treasury Corporation Report (2008)

The LGAQ and the DLGSR requested the QTC to assess the financial sustainability of the 109 councils which formed part of the SSS program. It completed assessments of councils between March 2006 and July 2007 and tabled a final report in October 2008. The QTC used an accounting approach to financial sustainability, augmented by other measures.

The QTC provided assessments of 109 councils. The QTC assessments were used in the subsequent forced amalgamation process by the Reform Commission.

2.3 ANALYSIS OF INQUIRIES IN TERMS OF TYPES OF REFORM

In section 2.3 we consider in more detail the findings of the inquiries using the Dollery, Garcea and LeSage (2008) typology. While the five categories in the Dollery, Garcea and LeSage (2008) typology are analytically discrete, in practice there is often overlap between categories. We consider each of the inquiries in chronological order in terms of these five categories. Since in
many cases individual inquiries dealt with only one, or some, of (a) financial reforms; (b) functional reforms; (c) jurisdictional reforms; (d) organizational/management reforms; and (e) structural reforms, we deal only with the types of reform tackled in each inquiry.

2.3.1 Commonwealth Grants Commission (2001) Report

(a) Financial reform: The genesis of contemporary concern with Australian local government sustainability can be traced to the CGC (2001) *Review of the Operation of Local Government (Financial Assistance) Act 1995*. As we saw in Chapter 2, in this pioneering report, the CGC (2001: 52-53) identified five main reasons for the acute level of financial stress in local government, especially in non-metropolitan areas: ‘Devolution’ – where a higher sphere of government gives local government responsibility for new functions; ‘Raising the Bar’ – where a higher tier of government, through legislative or other changes, raises the complexity and/or standard at which local government services must be provided, thereby increasing the cost of service provision; ‘Cost Shifting’ – either where a local council agrees to provide a service on behalf of a federal or state government (with funding subsequently reduced or stopped) or where some other tier of government ceases to provide an essential service thus forcing a local authority to take over; ‘Increased community expectations’ – where a local community demands improvements in existing municipal services or the provision of a new service; and ‘Policy choice’ – where specific local councils voluntarily expand and/or enhance their services. This set the scene for succeeding analyses of financial sustainability.

(b) Functional reform: The CGC (2001: 52/53) identified functional changes as the source of three pillars of the fiscal crisis confronting local government: ‘Devolution’, ‘raising the bar’ and ‘cost shifting’. In addition, the CGC (2001) calculated trends in the composition of outlays by function over the period 1961/62 to 1997/98 and found that human service functions expanded sharply relative to services to property. The CGC (2001, 53-4) ascribed four main characteristics to these changes:

- A shift from ‘property-based services to human services’.
The relative weight of ‘recreation and culture’ and ‘housing and community amenities’ had increased to about 20% of expenditure in each case.

Expenditure on roads declined from more than 50% to slightly more than 25%.

Expenditure on ‘education, health, welfare and public safety’ expanded and ‘local government is increasingly providing human services at the expense of traditional property-based services (particularly roads)’.

(c) Jurisdictional reforms: The CGC (2001) did not deliberate on jurisdictional change in local government, except as cost-shifting. However, it observed that a mismatch existed between local government expenditure and revenue-raising powers, resulting in vertical fiscal imbalance, which had been addressed by providing financial assistance grants to local government rather than by giving it additional revenue-raising powers.

2.3.2 Hawker Report (2003)

(a) Financial reform: Although originally instituted to examine cost-shifting, the Hawker Report (2003) expanded its initial terms of reference and considered virtually the entire spectrum of local government activity. The Final Report consisted of six substantive chapters dealing with the roles and responsibilities of local government; cost shifting; local infrastructure; capacity building, including performance monitoring and structural reform; local government funding and intergovernmental financial relations; and the need for a ‘Summit’.

The Hawker Report (2003) made 18 specific recommendations dealing with ‘roles and responsibilities’ (three recommendations); ‘cost shifting’ (five recommendations); ‘infrastructure’ (two recommendations); ‘capacity building in our regions’ (four recommendations); ‘Commonwealth funding of local government’ (two recommendations); and the ‘way forward’ (two recommendations).

Several of these recommendations dealt with financial sustainability. For instance, Recommendation 6 tackled cost-shifting and called for additional funding to meet additional

(b) Functional reform: In respect to functional change, the Hawker Report (2003: 9) found not only increasing diversity across local government service provision, but also an ‘expansion of the roles beyond those traditionally delivered by the local sector’. This shift in service delivery had two main characteristics: (i) Local authorities had assumed responsibility for many more social services and (ii) councils have become more active in regulation, especially in ‘development and planning, public health and environmental management’. The main policy implication came in Recommendation 6 which prescribed the establishment of ‘a federal-state intergovernmental agreement’ which recognised cost shifting as ‘a problem’, allocated compensatory revenue, addressed state restrictions on ‘local revenue raising’ and developed ‘local government impact statements to identify the financial impact on local government of legislation by state and Commonwealth governments’.

(c) Jurisdictional reforms: The Hawker Report (2003: 7/8) observed that constitutional responsibility for local government fell on the states and territories which provided the legal framework for council operations. State and territory legislation imposed ‘few limitations on what services local government can provide’ and gave local government wide-ranging powers to carry out ‘almost all functions’. Thus, ‘to a significant extent, what individual councils do is a function of their own policy choices’. However, major differences in the responsibilities of local government existed between different state jurisdictions. The Hawker Report (2003) focused largely on the impact of the exercise of state government authority on local government expenditure and revenue.

(e) Structural reform: Chapter 5 assessed ‘amalgamation’ and ‘regional cooperation and resource sharing’. The Hawker Report (2003: 84) identified two kinds of ‘efficiencies gained by amalgamations’:
In general, large councils had a ‘more secure and adequate financial base, are better able to plan and contribute to economic development, are more effective community advocates, and interact more effectively with government and business’. In addition, ‘structural reform can deliver economies of scale and can enable councils to employ a wider range of professionals so they can offer a wider range and usually higher quality of services’.

Amalgamations yielded ‘savings’ as evidenced in the SA and Victorian amalgamation episodes, WA projections that structural reform of small councils could produce ‘notional annual savings’ of a total of $74.4 million or 5.2 per cent of total municipal expenditure and sizeable ‘savings projections’ from five NSW mergers.

However, this was immediately followed by an evaluation of ‘why amalgamations may not work’. Three main lines of argument were pursued in the Hawker Report (2003: 89):

- The ‘multitude of challenges’ confronting ‘small rural councils’ often mean that ‘amalgamations are not viable’.
- Amalgamation is not a panacea; other structural solutions involving ‘mentoring with a larger more prosperous council’ or ‘membership of a regional organization of councils’ are superior.
- ‘Continued cost shifting’ by state governments diminished the efficiency enhancing effects of amalgamation.

The Hawker Report (2003:90) made two recommendations: Recommendation 13 stated that ‘the Commonwealth Grants Commission, in consultation with the LGGCs in each State, assess the efficiencies of amalgamations or regional cooperation of local government, and use available mechanisms to adjust FAGs grants for the benefit of the sector at large’. In order to encourage mergers, ‘councils should not be financially penalized through a net loss of FAGs for the benefit
of the sector at large’. Recommendation 14 held that the Commonwealth ‘continue to develop partnership arrangements with local government on the delivery of Federal programs and service delivery; and as appropriate, engage established regional organizations of councils, or similar regional bodies, which have demonstrated capacity, in regional planning and service delivery’.

2.3.3 South Australian Financial Sustainability Review Board Report (2005)

(a) Financial reform: The FSRB (2005) investigation considered three main questions:

- Does council expenditure on service provision and local infrastructure meet current and future revenue flows?

- What is the optimal method of remedying any ‘mismatch’ between expenditure and revenue?

- Should grants from state and federal government be directed at reducing the financial mismatch?

The FRSB (2005) considered the problem of defining ‘financial sustainability’ to assess long-term solvency. It argued that no universal agreement existed on the meaning of ‘financial sustainability’ in Australian local government. The FRSB (2005: 10) proposed the following definition:

A council’s long-term financial performance and position is sustainable where: (i) continuation of the council’s present spending and funding policies; (ii) likely developments in the council’s revenue-raising capacity and the demand for and costs of its services and infrastructure; and (iii) normal financial risks and financial shocks, altogether are unlikely to necessitate substantial increases in council rates (or, alternatively, disruptive service cuts).

The FSRB (2005: 6.4(1)) found that 33 SA councils were either ‘unsustainable’ or ‘vulnerable’, accounting for about 50% of the population, 30% of metropolitan councils and 40% of country councils. The FSRB (2005:11/21) advanced 62 recommendations, focused largely on improving
financial management and financial record keeping. Many of these recommendations have been adopted in SA.

(b) Functional reform: The FSRB (2005:13) concluded that compliance costs imposed by the SA government are ‘substantial and growing’. It specifically identified ‘concession arrangements’, limits on ‘council non-rates revenue’, ‘limited access’ to developer contributions, and the ‘withdrawal’ of state services from regional SA as problems. However, while there is ‘some evidence of true cost shifting, not all that is claimed to be cost shifting qualifies as such’. The FSRB (2003) urged that these matters be addressed.

(c) Jurisdictional reforms: The FSRB (2005) briefly considered jurisdictional reform. It recommended inter alia the ‘progressive deregulation’ of fees and charges, an improved framework for developer contributions, and state-local agreements.

(d) Organizational/management reform: The FSRB (2005) found that SA council management was severely deficient. For instance, Finding 10.3(1) stated that ‘few councils appear to have developed or implemented a rigorous policy framework for funding their services and infrastructure, stating (for example) the role to be played by “user pays” and how any grants shortfalls are to be covered for services provided through grants funding’. In an analogous vein, in 13.2(3) it noted that ‘poor financial governance invariably leads to inadequate control on growth in operating expenses, a neglect of essential capital spending, revenue raising that is inflexible and inequitable, and a low level of understanding within the community of the real costs of current infrastructure and service commitments’. In 13.2 (6), the FSRB thus recommended that ‘the LGA education and training program for elected members and staff include a “governance checklist” for councils to use to assess their governance performance and address areas and/or issues of concern’, but did not directly focus on financial governance.

(e) Structural reform: The FSRB (2005) drew various conclusions on amalgamation. It found that ‘there is no strong relationship between a council's organisational size and either a strong financial position or a good annual financial performance’ (FSRB 2005, 49). Moreover, ‘the size and density of councils played little role in explaining the observed differences in the
sustainability of the long-term financial performance and position of councils’. It thus concluded that ‘because relative growth rates, size and density of councils altogether explain only a fraction of the differences observed in the sustainability of the long-term financial performance and position of councils, other financial characteristics must be more important contributors’.

The FSRB (2005: 85) also evaluated the claims made by the SA Local Government Boundary Review Board, prior to its structural reform program which reduced the number of councils from 118 to 68 in the post-1995 period, especially the forecast ‘recurrent savings’ of $19.4 million per annum and ‘one-off savings’ of $3.9 million. The FSRB (2005: 85) found that ‘whether the ongoing savings have in fact continued is a moot point’ since ‘fewer, larger councils are not the instant or easy fix that many would like to believe’, particularly in ‘non-metropolitan areas dominated by the “tyranny of distance” and other impediments’.

The FSRB (2005: 85) concluded that amalgamation produces ‘considerable costs and often exaggerated benefits’. Alternative models of council cooperation should thus be pursued, since there are ‘many intermediate forms of cooperation/integration among councils, with amalgamation being the most extreme (and confronting) form of integration’. The FSRB (2005: 85) found that numerous ‘voluntary arrangements’ in shared services and joint enterprise had proved successful in SA, with both regional organisations of councils and area integration models the best models for council cooperation.


**Financial reform:** The aims of the NSW Inquiry were fourfold:

- To determine the current financial position and performance of NSW local government;
- To gauge the adequacy of NSW local government infrastructure and service delivery;
- To assess the financial capacity of local government to meet its obligations and future challenges; and
• To identify promising financial, administrative, governance and intergovernmental reforms.

The NSW Inquiry thus represented a wider investigation than the SA Inquiry since its ambit extended beyond financial sustainability *per se*. However, it stressed that financial sustainability lay ‘at the heart of this Inquiry’ (LGI 2006: 267).

After consideration of the ‘practical realities’ of financial reporting by NSW councils, the Inquiry (2006: 271/272) concluded that ‘each council's financial reports should be accompanied by disclosure of relevant key financial performance indicators (financial KPIs)’, and must provide information on the following financial dimensions of a council’s operations:

- ‘A council’s financial position, which involves the state of its balance sheet, and so the relative level and composition of its assets and liabilities’; and

- ‘A council’s annual financial performance, which involves the state of its annual operating statement, and especially the size of relevant annual surpluses or deficits’.

Financial KPIs should bear ‘a strong predictive relationship with the degree to which a council's finances are likely to be sustainable in the long term, being based upon generally-accepted key analytical balances’. The Inquiry (2006: 273) prescribed ‘benchmark values’ based on the ‘average’ NSW council, with upper and lower ‘safe’ limits, with the caveat that ‘these values should be adjusted on account of each council’s individual circumstances’, depending whether the local council under review is ‘developed’ or ‘developing’, and whether it is ‘growing’ or ‘declining’.

The Allan Report (2006: 283) conceded that financial sustainability is a ‘controversial’ concept, but concluded that ‘a council’s finances should be considered sustainable in the long term only if its financial capacity is sufficient – for the foreseeable future – to allow the council to meet its
expected financial adjustments over time without having to introduce substantial or disruptive revenue (and expenditure) adjustments’.

Of the 49 recommendations of the NSW LGI (2006), 5 have special significance in the context of financial reform and financial sustainability. For example, in Recommendation 7 on infrastructure funding, the LGI suggested an additional $900 million per annum be available to councils through a combination of increased Commonwealth and state grants ($200 million), council expenditure savings ($200 million), and higher rates, fees and charges ($500 million). In order to facilitate this change, in Recommendation 21 the LGI advised that rate-capping be abolished, as well as limitations on some fees and charges, in return for councils adopting longer term strategic and financial planning with outcome targets. Furthermore, in Recommendation 27 the LGI proposed that the Commonwealth set its FAG to local government at a fixed percentage of GDP, preferably at 0.22%. In Recommendation 38 it suggested that key accounting and reporting policies be standardised across all councils. Finally, in Recommendation 39 the LGI endorsed its financial KPIs and the associated range of lower and upper benchmarks for each KPI. None of these recommendations was adopted.

(b) Functional reform: The Allan Report (2006) established that significant changes had occurred in the composition of NSW local government expenditure. For example, in Chapter 7 it noted that changes in local government expenditure since 1995/96 had three outstanding features: (i) ‘the fastest growing activities have been housing and community amenities, public order and safety, and economic affairs’; (ii) ‘transport and communications (largely road maintenance and depreciation, though not necessarily renewal) had a marked increase in 1996/97, but has stabilised since then’; and (iii) ‘health’ and ‘mining, manufacturing and construction’ fell relative to the CPI. Moreover, the Allan Report (2006) also determined that cost shifting was a significant problem.

The Allan Report (2006) addressed functional reform through three recommendations. Recommendation 2 prescribed an Intergovernmental Agreement between the NSW Government and the NSW LGA, which determined the respective roles, responsibilities and financial commitments of each level of government, and the limits of state intervention in local government. Recommendation 3 tackled cost shifting through an annual survey of councils to
measure the cost of the regulatory, policy and reporting responsibilities imposed by higher tiers of government. Recommendation 5 proposed councils with an ‘infrastructure renewal gap and backlog’ adopt an ‘optimalist’ approach to new recurrent services until the backlog has diminished.

(c) Jurisdictional reforms: With respect to jurisdictional reform, Recommendation 21 called for the removal of rate-pegging and urged the NSW Government to ‘free’ local government to set its own rates and other fees. Similarly, Recommendation 49 called for the establishment of an ‘Independent Commission’ made up equally of representation from the NSW LGSA and the state to assess the ‘gravity of the problems’ facing NSW local government.

(d) Organizational/management reform: The Allan Report (2006) considered the administrative and management of local councils in detail. It ‘benchmarked’ the administrative performance of 9 ‘volunteer’ local authorities (3 metropolitan, 3 regional and 3 rural councils) against other councils, public institutions and private enterprises world-wide. This demonstrated that whereas these councils were not in the ‘best practice’ league, they were nonetheless ‘very close to it’ except in ‘client focus’. The Allan Report (2006:21) argued that the results showed that local government was ‘capable of performing as well as or better’ than other public and private organizations. In addition, the Inquiry found that back-office overheads in 58 NSW councils on average represented only 10% of total operating expenses, where ‘best practice’ was around 10 to 16% for entities of the same size, suggesting that councils had ‘a lean corporate support structure’. However, the Inquiry established that asset management plans and risk management plans were inadequate. Moreover, while mandatory management plans were ‘taken seriously’, the three-year planning and one-year budgeting horizons used were ‘too short for meaningful medium to long-term decision-making’.

While the Allan Report (2006) thus found that management was basically sound, it nevertheless considered methods of improving the administrative and management of local councils. One option examined was council mergers. The Report (2006: 22) found that the ‘evidence was inconclusive, except perhaps for the smallest councils’, and even in these cases ‘other factors better explained higher costs per resident, especially low population density in remote areas’. A
second possibility considered cooperative service provision for those services with scale economies through service sharing, joint processing and external outsourcing, notably financial transaction processing, IT and procurement. Thirdly, the Inquiry found that all NSW councils had experienced ‘a shortage of professional skills, especially in planning, engineering and accounting’.

The Report advanced various recommendations aimed at improving the administration and organisation of local councils, two of which are significant. Recommendation 32 sought to enhance governance structures and urged the NSW Government to ‘amend the LG Act to provide for a choice of governance structures’, including a ‘Corporate Board’ structure and a ‘Parliamentary/Executive’ structure. Recommendation 34 dealt with ‘long-term planning’ where ‘all councils develop and adopt a long-term strategic and financial plan in close consultation with their communities that would be subject to annual external compliance audits’.

(e) Structural reform: Chapter 10 examined the question of council size and efficiency which underpinned the case for council mergers. It observed inter alia that amalgamations had been based on ‘the primary rationale that larger councils with larger populations could exhibit greater economic efficiencies’ because bigger councils would exhibit ‘lower administrative costs, smaller unit costs of representation, increased purchasing power, improved utilisation of depots, plant and equipment and draw from a more diverse funding base’ (Allan Report, 2006:259/60). The Report (2006: 261) noted that uncertainty existed on this claim and it had a ‘sound empirical basis’. It concluded that ‘achieving increased economies of scale and greater efficiencies through forcible amalgamation seems questionable and generally not desirable’.

2.3.5 Queensland Size, Shape and Sustainability Review Framework (2006)

(a) Financial reform: In the context of the long-run viability of local councils, the LGAQ Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006) proposed that councils must ‘assess their current and future sustainability against a number of key indicators’. In particular, indicators would ‘help identify present or future vulnerabilities, opportunities, and strengths’.
Chapter 3 advanced five criteria that indicators should fulfil: ‘relevant’ and ‘limited’ in number; ‘capable of relating to other indicators’; ‘easy to understand’ ‘reliable’; and based on ‘accessible information’. Four categories of indicator were prescribed: (1) ‘financial and resource base’; (2) ‘community of interest’; (3) ‘planning’; and (4) ‘standards of governance’. Category (1) is pertinent to financial sustainability. It contained 7 indicator groups: ‘financial forecasts’; ‘revenue base’; ‘rating capacity’; ‘asset sustainability’; ‘levels of service’; ‘human resourcing’; and ‘cross border use of council services’. These indicator groups derived from the QTC review process offered to local councils as part of the SSS exercise.

(d) **Organizational/management reform:** The LGAQ (2004: 24) considered the administration and management of local government. It argued that a ‘substantial body of research’ had found that (i) small councils have higher per capita administration costs and (ii) scale economies in administration cease beyond a population of 50,000 people. However, scale could best be obtained through cooperative arrangements rather than amalgamation. Similarly, LGAQ (2004: 24) noted that Queensland councils have problems attracting qualified staff, especially smaller local authorities.

(e) **Structural reform:** Chapter 4 considered structural change in Queensland. It proposed four different options: ‘Merger/amalgamation’; ‘significant boundary change’; ‘resource sharing through service agreements’; and ‘resource sharing thorough joint enterprise’. It argued that the benefits from mergers included a ‘sufficient resource base’, a reduction in the ‘total costs of government’, scale economies, lower staff levels, rationalisation of assets, ‘cross-border’ facility and service utilisation, better promotion of economic development, increased political lobbying power, and ‘full-time’ elected representatives. Costs embraced ‘exposure’ to liabilities of other councils, fewer grants, high costs of ‘integrating’ constituent councils, integrating ‘widely differing organisational cultures’, creating ‘differing levels of service in some areas’, and diluting representation. Chapter 4 stressed the importance of the ‘voluntary’ nature of any amalgamation proposal to its ultimate success.
2.3.6 Western Australian Systematic Sustainability Study (2006)

(a) Financial reform: While the Final Report of the WA Systematic Sustainability Study (WASSS) considered the entire gamut of local government activity in WA, most attention focused on financial reform and financial sustainability. Its assessment of financial sustainability derived largely from Access Economics (2006b) commissioned by WASSS, in common with the SA, NSW and PWC reports. It is thus not surprising that the definition of financial sustainability shared a great deal with these other inquiries.

Access Economics (2006b: 55) defined financial sustainability as where a ‘council’s finances are sustainable in the long term only if its financial capacity is sufficient – for the foreseeable future – to allow a council to meet its expected financial requirements over time without having to introduce substantial or disruptive revenue (and expenditure) adjustments’. This definition involves comparing long-run fund-raising ability with long-term expenditure needs. A ‘benchmark’ deficit of 10 per cent of the operating debt ratio was arbitrarily set; councils with a ratio in excess of 10 per cent were assessed as ‘financially unsustainable’.

Access Economics (2006b: 57/58) assessed all WA councils and found that 83 (out of 142) WA councils (or 58%), serving around 21 per cent of the population, were unsustainable. It compared this with its earlier calculations for SA and NSW: ‘In NSW, 25 per cent of that state’s councils were assessed as financially unsustainable, with such councils serving 17 per cent of the state’s population’ whereas in SA ‘50 per cent of that state’s councils were assessed as financially unsustainable, with such councils serving 50 per cent of the state’s population’.

WASSS (2006: 33, Table 5.1) presented 48 recommendations, of which some are relevant to financial sustainability. For example, Recommendation 4 called for revision of the escalation methodology for FAGs based on local government cost movements. Recommendation 14 advocated increasing the use of developer charges to fund new infrastructure and Recommendation 26 proposed 10-year asset management plans. These recommendations have not been adopted.
(b) **Functional reform:** WALGA (2006) addressed functional change through Recommendation 19 which called for consistent treatment for revenue forgone from state concessional policies.

(d) **Organizational/management reform:** Numerous recommendations advanced suggestions for organisational and managerial reform. For example, Recommendation 11 prescribed that a ‘best-practice guide for debt funding of infrastructure be developed’, which could be used to train elected representatives and staff on ‘modern capital management’, together with other ‘capacity building measures designed to improve financial expertise, technique, systems and outcomes’. Recommendation 24 urged councils to adopt a renewal based approach consistent with asset management and strategic financial plans. In common with several other inquiries, Recommendation 26 prescribed a ‘comprehensive 10 year asset management plan’ integrated within business and financial plans, which would address infrastructure renewal, upgrade and replacement.

(e) **Structural reform:** Chapter 8 considered council amalgamation as part of the broader range of alternative models. It argued that a ‘state/territory’ model and an ‘industry-owned service provider’, which delivered selected services on a regional basis for member councils, were the most promising options. The Report was emphatic on mergers, noting that ‘there was little prospect that forced amalgamations would achieve any lasting community benefit’ on grounds that ‘there is a growing literature and operating experience to this effect elsewhere in Australia’ (WALGA 2006: 70). In short, Chapter 8 argued that the main benefits which purportedly derived from amalgamation ‘can be obtained by methods other than enforced structural reform’.

2. 3.7 PriceWaterhouseCoopers Report (2006)

(a) **Financial reform:** In contrast to the state-based inquiries, the PWC Report (2006: 6/7) took a national perspective on financial reform. It stressed the difficulties involved in assessing the ‘financial viability’ of local councils across Australia, with three main problems preventing a common sustainability index: ‘Mixed approaches to measuring and recording financial data’ and ‘inconsistencies between states’; ‘infrequent’ asset valuations and differences in assumed asset lives; and ‘incomplete’ financial and asset management records, especially in smaller councils. These difficulties forced PWC to adopt two techniques for financial sustainability:
• PWC applied financial ratio analysis to a sample of 100 local councils weighted by state and stratified in proportion to the DOTARS categories.


PWC (2006, 95) defined ‘financial sustainability’ as occurring where the ‘financial sustainability of a council is determined by its ability to manage expected financial requirements and financial risks and shocks over the long term without the use of disruptive revenue or expenditure measures’. This involves two elements:

• Councils should maintain ‘healthy finances’, given current expenditure and revenue policies and foreseeable future developments.

• Councils must ensure infrastructure expenditure ‘matches’ asset planning.

It drew three main conclusions from the 100 municipality sample:

• Most ‘large’ metropolitan councils were ‘generally viable’, with some ‘stretched’ owing to ‘service expansion’, and ‘internal reform’ is necessary.

• ‘Urban Fringe’ councils have ‘mixed’ sustainability, ‘internal reform’ is needed and ‘only some’ councils need ‘additional’ funding.

• ‘Rural Remote’ and ‘Rural Agricultural’ councils exhibited ‘pronounced’ sustainability problems, required ‘internal reforms’, and most should receive ‘extra funding’ for the ‘renewal of existing community infrastructure’.
The second approach adopted in the PWC report involved extrapolation using the KPIs in the FSRB (2005), LGI (2006) and WALGA (2006) state inquiries and the MAV ‘viability index’ to all Australian local councils. PWC (2006, 111) found that:

- 20 to 40% of all Australian councils ‘could be unsustainable’.
- NSW had the most acute ‘financial viability issues’.
- The average annual per council ‘underspend’ on ‘existing infrastructure renewals’ lies between $1.3 million and $1.7 million.
- In order to remedy the annual infrastructure shortfall plus the accumulated infrastructure backlog, the ‘average’ council would need an additional $2.6/$3.3 million per year.

(b) Functional reform: PWC (2006) dealt with functional changes using the CGC (2001) framework. It drew the same conclusions: local government has broadened its service provision under a regulatory regime which has shifted costs onto local councils. PWC (2006: 69) observed that two kinds of cost shifting have occurred: (i) where local government ‘agrees to provide a service on behalf of another sphere of government but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand for the service’; and (ii) where ‘another sphere of government ceases to provide a service and local government steps in’. In general, PWC (2006) argued that the Intergovernmental Agreement of April 2006 by the Commonwealth, state and local governments should adequately ameliorate the problem. It also recommended that the escalation methodology for FAGS be revised.

(c) Jurisdictional reforms: PWC (2006:152) recommended the expansion of own-source revenue by urging state governments to ‘remove or relax legislative impediments and improve the capacity of local government to raise revenue from its own sources’.

(d) Organizational/management reform: PWC (2006) tackled organisational and managerial matters tangentially. PWC (2006: 157) proposed that councils should ‘set clear and appropriate
priorities’, which involved *inter alia* ‘a robust long-term service plan which defines what council will provide and how services will be undertaken’ and securing ‘long-term funding (not just capital grants) prior to new services and infrastructure’. In financial management, PWC (2006:157/8) recommended councils should ‘deepen asset management and financial capacity’ by working with other tiers of government to ‘facilitate improved asset management and financial skills through government-funding programs’, as well as ‘lift the skills in all councils to a reasonable base level’. Moreover, local authorities should employ total asset management plans and systems to ‘better manage asset renewals and replacement, and integrate into broader long-term council objectives’. PWC (2006: 154) recommended that ‘state governments provide funding support to encourage the local council efficiency and asset management reforms’ since there would be significant benefits.

(e) **Structural reform:** With respect to amalgamation, PWC (2006) drew three main conclusions:

- PWC (2006: 72) argued that while ‘structural reform through amalgamations is necessary in some instances, each potential amalgamation needs to be assessed carefully to avoid the risk of simply creating large inefficient councils’. It stressed the fact that ‘remote councils’ faced ‘higher cost structures’ largely due to the tyranny of distance, which no amalgamation process could remove.

- PWC (2006: 75) concluded that ‘mergers can bring greater financial strength and stability to councils, however, simply merging a number of adjoining unviable councils is unlikely to increase financial sustainability to the stage where there is a single viable council and it may decrease effectiveness and result in greater disputes between councillors based on parochial interests’.

- PWC (2006: 149) contended that ‘efficiency, effectiveness and scale’ could be improved through regional service provision, shared service arrangements, outsourcing, state-wide purchasing initiatives, and the like, rather than amalgamation.
2.3.8 Local Government Association of Tasmania Review (2007)

(a) Financial reform: Access Economics produced *Review of the Financial Sustainability of Local Government in Tasmania* (LGAT, 2007). It was requested to investigate financial sustainability, financial governance and financial policy. A complicating factor was that the Tasmanian government had initiated steps to remove water and sewerage from local councils.

Access Economics contrasted financial sustainability with ‘financial viability’. It defined financial sustainability as ‘the extent to which a council's financial capacity is sufficient - for the foreseeable future - to allow the council to fund the spending that is necessary to meet both its existing statutory obligations and any associated spending pressures and financial shocks without having to introduce substantial or disruptive revenue (and expenditure) adjustments’ (LGAT, 2007: vii). This definition echoed earlier definitions by Access Economics for the SA, WA and NSW inquiries.

It set out six financial KPIs and associated benchmark values and applied these to Tasmanian councils. The results demonstrated that 6 Tasmanian councils (about 20%), serving 8% of the population, could be classified as ‘unsustainable’ on the benchmark values. This implied that these councils faced ‘substantial or disruptive revenue (or expenditure) adjustments’ to correct imbalances in long-term finance. This can be compared with the Access Economics analysis of SA, NSW and WA:

- 50% of SA councils were financially unsustainable, serving about 50% of the population;
- 25% of NSW councils were financially unsustainable, serving 17% of the population; and
- Just over 50% of WA councils were financially unsustainable, serving 21% of the population.
In Tasmania, an additional 5 councils (some 17%), serving 14% of the population, were classified as ‘vulnerable’.

LGAT (2007: 66) advanced a number of recommendations for long-term spending, asset management, revenue and borrowing policies to meet local infrastructure and service obligations within sustainable financial limits. In particular, Access Economics recommended councils adopt a ‘rolling 10-year financial plan’ aimed at the local infrastructure backlog, new infrastructure investment, revenue measures, operational savings, re-ordering of expenditure priorities, infrastructure enhancement deferrals, asset leases or disposals and extra borrowings, and sustainable financial targets.

(d) Organizational/management reform: It found that ‘Tasmanian councils’ current financial governance policies and processes - on average - just meet minimum acceptable standards’, but for ‘almost one-half of Tasmanian councils, there is scope for improvement in financial governance policies and processes to shift their financial governance into the “meets minimum standards” territory’. LGAT (2007: 57) argued that ‘particular areas identified for improvement’ included ‘establishing internal structures that provide for independent review of processes and decision-making to assist councillors meet their accountability to ratepayers and the community’. This should embrace an audit committee for oversight and advice on accountability and internal control.

(e) Structural reform: LGAT (2007: 65) argued that forced amalgamations were unlikely to achieve ‘lasting community benefit’. Moreover, while small councils often ‘lack administrative and technical capacity compared with larger councils’ and ‘council amalgamations will generate a greater range of services and improved quality of service’, the ‘main benefits of amalgamation can usually be obtained by methods other than enforced structural reform’, mostly ‘resource sharing and pool-style arrangements’. Following WALGA (2006), it recommended that Tasmanian local government should investigate (a) a ‘state/territory’ model comprising a ‘two-tier local and regional government’ and (b) ‘sector-owned service providers’.
2.3.9 Queensland Local Government Reform Commission Report (2007)

(a) Financial reform: The fourth main criterion guiding the Reform Commission was ‘financial sustainability’. However, it did not define ‘a minimum level of financial sustainability for local government’ and relied on the QTC financial sustainability reviews, despite the fact that not all councils had undergone QTC scrutiny. Of the 109 councils which had been reviewed by the QTC, 57 councils (52%) were classified as ‘moderate’ in terms of financial sustainability, where moderate implies a ‘high capacity to meet its financial commitments’, and 28 (25.6%) were designated as ‘weak’, where weak means an ‘acceptable capacity to meet its financial commitments’ (Reform Commission, 2007: 71).

(e) Structural reform: It provided little justification for the amalgamation process, which instead was advanced in the DLGPS&R (2007) Local Government Reform (Dollery, Wallis and Crase, 2007). It proposed four main strands: (a) the need to address ‘medium to long-term sustainability’ in local government; (b) the ‘need for greater collaboration in infrastructure and regional planning’; (c) the need for local councils to avoid an ‘internally focused parochial mindset’ and instead consider the ‘bigger picture’; and (d) the need to reduce the ‘inconsistency of performance and service delivery across the local government sector’ (DLGPS&R, 2007: 11).

Drawing on PWC (2006), it argued that large numbers of local councils were ‘non-sustainable’ and faced severe local infrastructure backlogs, with these problems ‘typically more acute in smaller councils’, especially in ‘rural or remote areas’. 43% of councils fell into the ‘weak’ or below categories. Moreover, the financial assistance provided to local councils in Queensland in terms of per capita grants was the highest in Australia at $88.50. Chapter 4 pointed to administrative and technical staff shortages and the impact of this on local government capacity, particularly of small councils. It contended that ‘large councils with greater financial resources would be significantly better placed to establish robust regionally-based employment frameworks’ (p. 39). Finally, Chapter 5 considered structural reform programs in New Zealand, South Australia, Tasmania and Victoria, which it assessed as generally successful.
2.3.10 Productivity Commission Report (2008)

(a) Financial reform: The PC was charged with assessing the capacity of local government to raise revenue. In particular, it had to examine the capacity of different types of council (capital city, metropolitan, regional, rural, remote and indigenous) to raise revenue and the factors contributing to capacity and variability in capacity over time. It was forbidden from investigating borrowing. Thus it investigated the hypothetical capacity to raise revenue rather than real-world revenue accrual. This limited the usefulness of the PC (2008) Assessing Local Government Revenue Raising Capacity.

The PC identified two methods of determining the capacity of councils to raise revenue:

- The fiscal capacity of a local council measured as the aggregate income net of tax of its local community.
- The willingness of the local community to pay for services.

The PC found that fiscal capacity differed by category of local government. Thus capital city CBD councils had the highest fiscal capacity, due to high business income, parking and traffic fine revenue and comparatively small resident populations. By contrast, most remote councils, without mining and petroleum activity, had low fiscal capacity, particularly indigenous councils. On average, ‘urban developed’, ‘urban regional’ and ‘rural’ councils had intermediate levels of fiscal capacity, whereas ‘urban fringe’ councils generally had lower levels of fiscal capacity. The PC (2008) found that revenue-raising effort, measured as the ratio of own-source revenue to fiscal capacity, also differed by category of local government.

It prescribed several principles to guide revenue-raising decisions of local government. They dealt with financial management; evaluation and priority setting; core functions; identifying costs of service delivery; prudent borrowings; rate setting and pricing of services; responsibility and accountability; openness and transparency; and the provision of services for other tiers of government.
The PC advanced 29 formal findings, a few of which are relevant here. For example, Finding 2.1 held that the ratio of local government rates revenue to GDP decreased over the period 1990/91 to 2005/06. Finding 3.2 established that there is considerable variation per capita in both own-source revenue raised and grants received by councils. Finding 3.3 observed that for most councils, own-source revenue is the main income. However, for 20% of councils, which represent only 1% of the population, grants account for 48% or more of total revenue. Finding 5.6 noted that, given the differences in the scope to raise additional revenue across different classes of council, Commonwealth general purpose grants should be reviewed.

(b) Functional reform: The PC (2008: 18) observed that ‘there has been a particularly notable transition of local government roles, from being essentially providers of property-related services to increasing involvement in the provision of social services, including health and welfare services, community housing and recreation and sporting facilities’. Moreover, ‘provision of a broader range of services and increased service standards has occurred in many council areas’, with local authorities ‘actively promoting economic development in their areas’. The PC (2008) reviewed previous research on cost-shifting, including the CGC (2001), but offered no further reflections on functional reform.

(c) Jurisdictional reforms: The PC (2008: xxxii) demonstrated that state regulations impinged on the revenue-raising capacity of councils through limitations on land valuation methods, the imposition of differential rates, exemptions for classes of property owner, concessions to ratepayers, rate pegging in NSW, and constraints on fees and charges. While the whole or part removal of these restrictions would improve the financial viability of local councils, the PC made no explicit recommendations.

2.3.11 Queensland Treasury Corporation Report (2008)

(a) Financial reform: The QTC (2008) assessed the financial sustainability of local councils participating in the SSS Program. This involved defining financial sustainability, selecting suitable financial indicators, and developing an assessment methodology and a rating scale. Its definition of financial sustainability drew heavily on the FRSB (2005): financial sustainability in
local government means that a council is able ‘to manage likely developments and unexpected financial shocks in future periods without having at some time to introduce economically significant or socially destabilising revenue or expenditure adjustments’ (QTC, 2008: 16).

The QTC (2008) broke this definition down into different elements, such as operating performance sustainability, and then developed specific indicators and normative values for indicators. For example, ‘fiscal flexibility’ was defined by the QTC (2008: 42) as ‘the capacity of a local government to respond to changing circumstances (including unforeseen financial shocks) by adjusting revenue and/or expense levels or by maximising balance sheet management’. Fiscal flexibility was deemed to have three core aspects: own-source revenue; self-generated revenue; and debt capacity.

In its assessment, the QTC considered past financial performance and long-term (10-year) financial forecasts, several quantitative and qualitative indicators, discussions with senior council officers, as well as macroeconomic considerations. Using this methodology, the QTC (2008) ranked councils on a six dimensional scale: ‘Very strong’, ‘strong’, ‘moderate’, ‘weak’, ‘very weak’ and ‘distressed’, which referred to the capacity of councils to meet financial commitments in the short, medium and long-term, and manage unforeseen financial shocks without the need for significant revenue or expense adjustments. 61.5% of the 109 councils were rated ‘moderate’ and above, whereas 38.5% of councils were rated ‘weak’, ‘very weak’ or ‘distressed’.

It made 17 formal recommendations. Perhaps the most important was that councils should target a balanced or surplus operating result, and if this is not feasible, then operating deficits should be no greater than 4.0 per cent of annual operating revenue. Secondly, increases to net rates, utilities and charges should be a function of service provision costs rather than the Consumer Price Index. Asset Management Plans should be completed and linked to a long-term financial forecasting model.
2.4 CONCLUSIONS

2.4.1 Broad Conclusions

What should we make of the wealth of material and mass of recommendations contained in the inquiry reports we have considered in Chapter 2? At the ‘meta-level’, a striking feature of this body of work has been that very few recommendations have been implemented. This raises interesting questions about why this has been the case. Perhaps the most convincing answer derives from the fact that most inquiries were initiated by either national and state Local Government Associations or the Commonwealth Government rather than by state governments which have legislative authority over local government. It would thus appear that the old adage that government only instigates an inquiry to secure the ‘answer’ it desires holds true in this instance!

This conclusion is given force when it is taken into account that with inquiries undertaken at the behest of state governments, such as the Queensland Local Government Reform Commission Report (2007), recommendations were almost invariably implemented in whole or part. From the perspective of local government, this leads to the rather bleak implication that it has been largely unable to ‘control its own destiny’ by means of expensive inquiry processes and that this general approach should thus be abandoned as a means to this end.

A second broad conclusion can be drawn from the reports: All Australian local government jurisdictions are afflicted by severe financial distress and the primary symptom of ongoing financial unsustainability resides in the large and growing local infrastructure backlog. These findings emerged from all of the inquiries which assessed financial sustainability and are thus not dependent on the methodology employed. It follows that there is thus a compelling case for policy intervention aimed at alleviating the problem. Policy intervention must take two main forms: (i) policy designed to remove, or at least reduce, the local infrastructure backlog and (ii) policy structured to reduce ongoing financial problems. Under both (i) and (ii), argument still continues over whether this should best be done through larger intergovernmental transfers (PWC 2006), more income-raising latitude bestowed on local government (NSW LGI 2006), greater ‘tax effort’ exercised by local government under its existing revenue-raising powers (PC 2008), more borrowing, or some combination of these options.
In addition to these broad conclusions, we can also draw some more specific implications for local government from the reports in terms of (a) financial reform; (b) functional reform; (c) jurisdictional reforms; (d) organizational/management reforms; and (e) structural reform.

2.4.2 Financial Sustainability and Financial Reform

It is evident that financial sustainability is a thorny question since it inevitably involves developing methods of evaluating the financial performance of individual councils inclusive of formidable conceptual and measurement difficulties. Indeed, there is no agreed definition of ‘financial sustainability’. However, despite these complexities, there is no doubt that Australian local government faces daunting financial problems exemplified by the massive local infrastructure backlog. Moreover, the degree of financial distress differs by type of council, with the problem more acute in rural and remote councils. It is possible to identify at least one common theme in most of the state-based inquiries. This centred on the urgent need for local authorities to improve asset and financial management, with several reports prescribing long-term financial planning, common approaches to asset depreciation, a need for uniform financial practice and record-keeping across state jurisdictions, and the like.

2.4.3 Functional Reform

Broad agreement existed that two main changes had taken place over the past three decades. Firstly, local government had expanded the range of services it provided from its traditional focus on ‘services to property’ towards ‘services to people’. Secondly, ‘cost-shifting’ became a crucial factor and it was manifested in numerous ways, including a fall in the real value of grants, state and federal governments withdrawing from service delivery, increasing fees and other charges imposed on councils by higher tiers of government, and legislative imposts, such as increases in accountability and compliance requirements. Much less agreement existed on the best methods of dealing with the difficulties which cost-shifting had wrought. In the comparatively few reports which proposed functional reform measures, most focused on some kind of Intergovernmental Agreement to tackle cost-shifting, with a couple suggesting more accurate methods of calculating the value of grants.
2.4.4 Jurisdictional Reform

Those inquiries which did reflect on changes to the authority and autonomy of local government pointed to four main trends. Firstly, substantial revision of the enabling acts of state local government systems gave local authorities greater powers of general competency and increased local autonomy. Secondly, a simultaneous sharp rise in the prescriptive regulation of councils constrained the independence local councils in many areas, such as levying developer charges. Thirdly, there has been growing complexity in the intergovernmental structures involving local government. Fourthly, there are now significant differences between the functions and responsibilities of local government across state and territory jurisdictions, complicating a national approach to intergovernmental relations. While it was universally recognised that local government was beholden to state government for its functions, powers and structures, various inquiries called for greater latitude for local councils, especially in the realm of revenue-raising.

2.4.5 Organisational and Managerial Reform

Three themes dominated the debate on organisational and management reform. Firstly, the revision of Local Government Acts had conferred greater latitude on local councils permitting council officers more ‘freedom to manage’ using corporatisation, outsourcing, competitive tendering and other methods. Secondly, much greater emphasis had fallen on the joint provision and/or production of local goods and services through an array of regional collaborative relationships between councils. The third and most significant trend has been a sharp focus on long-term decision making and planning, notably in asset management, which has obliged council officers to engage in strategic planning. The importance of long-term planning was endorsed in almost all the inquiries dealing with organisational and management reform. The stress placed on the need for strategic planning, especially in asset and financial management, appears to have borne fruit in terms of actual policy implementation in most state jurisdictions.

2.4.6 Structural Reform

Amalgamation has always been the main engine of reform in Australian local government. The most interesting aspect of the deliberations of the inquiries on structural change is that they have echoed scepticism in the academic literature on compulsory council consolidation, with the weight of opinion suggesting that the traditional Australian stress on council mergers has been
misplaced. In general, the reports argued that alternative models of council cooperation should be pursued to achieve scale and scope economies since population density, and not population size, constituted a key element in council cost structures. They thus recommended that regional collaborative arrangements other than forced amalgamation be pursued.
CHAPTER 3: STRUCTURAL REFORM AS A POLICY SOLUTION

3.1 INTRODUCTION

In Chapter 1 it was stressed that structural reform in the form of forced amalgamation has always been the chief policy response by Australian state and territory governments aimed at improving the performance of local councils, while Chapter 2 demonstrated that, in general, the various national and state inquiries over the past decade found that forced mergers had not been effective in achieving their intended aims. While other policy initiatives have also been attempted, perhaps most notably the redesign of the various state Local Government Acts over the past twenty years, structural reform centred on compulsory and occasionally voluntary council amalgamations seems to have retained an iron grip on state government policy makers, despite not only disappointing results from amalgamation programs, but strong theoretical and empirical reasons to the contrary.

The heavy emphasis on the structural reform of local councils by Australian local government policymakers to the exclusion of other types of reform is striking. After all, according Dollery and Crase (2006, p. 455), there is a marked difference between structural change, which ‘involves a reorganization of the structure of local government’, and what they refer to as process change, defined as ‘modifications in the methods employed by municipalities’. Table 3.1 provides an illuminating picture of the heavy-handed Australian emphasis on compulsory structural reform as an instrument of local government reform:

A number of interesting observations flow from Table 3.1:

- The number of municipal authorities in Australia has decreased from 1067 to 680 (or by more than 36 per cent) over the period 1910 to 2008. During this time period, the total population of Australia increased from 4,425083 to 20,209 993 in 2004 (ABS, 2007) (i.e. just under a five-fold increase).
Table 3.1: Local Council Numbers in Australia 1910 to 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
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<td>22</td>
<td>726</td>
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<td>1995</td>
<td>177</td>
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<td>152</td>
<td>79</td>
<td>73</td>
<td>68</td>
<td>142</td>
<td>29</td>
<td>16</td>
<td>532</td>
</tr>
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Source: Adapted from Grant, Dollery and Crase (2009).

- The only recorded cases running counter to the trend of consolidation in recent Australian municipal history occurred in the Northern Territory, where local authorities increased from 22 in 1990 to 63 in 1995, and in Western Australia, where the absolute number of municipalities briefly increased between 1990 and 1995. There has been a greater aggregate consolidation of councils over time in the more populous states of New South Wales and Victoria, where the population has increased from 1,643 855 in 1910 to 6,749 297 in 2004 and from 1,301 408 in 1910 to 4, 992 667 in 2004 respectively (ABS, 2007).

- There is a distinct lack of uniformity between jurisdictions in the timing of major municipal consolidation programs: While major consolidation occurred in NSW in the period 1967 to 1982, analogous consolidation occurred in Tasmania over the period 1990 to 1995 and in Victoria the major period of structural reform fell in 1995-2007. Major structural reform in Queensland and the Northern Territory occurred in 2007 and 2008 respectively (Dollery, Ho and Alin, 2007; DLGHS, 2008). According to Dollery, Grant and Crase (2009) this suggests that council consolidation is largely independent of national economic conditions, federal politics, and state and federal government negotiations, including the deliberations of the Council of Australian
Governments (COAG) (Moore, 1997) and its predecessor, the Australian Council for Inter-governmental Relations.

Against this background, as well as the findings of the various public inquiries into local government on compulsory consolidation, Chapter 3 considers structural reform in the broad sense rather than the narrower interpretation traditionally given to the term by Australian local government policy makers.

Chapter 3 is divided into four main parts. Section 3.2 outlines different possible structural models of Australian local government suitable for Australian (and Tasmanian) conditions. Section 3.3 provides an evaluation of amalgamation as a method of improving the efficiency, effectiveness and financial sustainability of local government, as well as an assessment of boundary changes through state legislation intended to modify the structure of local government. Section 3.4 discusses shared services and other forms of council collaboration as the main structural alternative to amalgamation. Chapter 3 ends with some brief concluding comments in section 3.5.

3.2 ALTERNATIVE MODELS OF AUSTRALIAN LOCAL GOVERNMENT

In their taxonomy of generic models of municipal governance specifically adapted to the narrow range of ‘services to property’ characteristic of Australian local government, Dollery and Johnson (2005) identified seven discrete alternative organizational types based on the notion that existing and potential models feasible in the Australian local government milieu can be located along a bipolar continuum given by the degrees to which political and operational control can be centralized or decentralized between local councils and the new organizational entity they join. In this typology, the degree of centralization indicates the extent of concentration of control vested in the new governance structure (as opposed to the original small councils that comprise the new arrangement). By contrast, operational control refers to the ability to administer and undertake local service provision and delivery, whereas political control focuses on the capacity to make decisions over the domain and mix of local services.
We now briefly describe the seven alternative models in the Dollery and Johnson (2005) typology that are located along this continuum:

3.2.1 Existing Small Councils

Australian local government is characterized by tremendous diversity with the considerable constraints imposed by state government legislatures. Australian councils nevertheless enjoy a reasonable degree of political autonomy and operational autonomy over their own affairs. Political autonomy is ensured by regular democratic elections and the ratio of elected representatives to voters is comparatively low. Operational autonomy is also ensured since elected councils hire managerial, administrative and other staff, determine the delivery of goods and services within the admittedly constraining parameters of enabling legislation, and decide on how to adjust service delivery to meet changed circumstances. Existing small councils are subject to sharp financial constraints in terms of revenue-raising capacity and limitations on grants from the Commonwealth and state governments. However, these constraints would apply to all other models of Australian local government as well.

3.2.2 Ad hoc Resource Sharing Models

The most limited and flexible alternative to municipal amalgamation resides in voluntary arrangements between geographically adjacent councils to share resources on an ad hoc basis whenever and wherever the perceived need arises. Resource sharing of this kind can encompass a wide range of possibilities, including specialised employees, such as environmental experts, town planners and skilled consultants, capital equipment, like earth-moving machinery and mainframe computing facilities, administrative services, such as information technology systems, and entire operational services, like domestic garbage removal and disposal. The economic imperative to reduce the costs of service delivery in local councils has provided a powerful incentive for smaller municipalities to investigate any potential advantages which may flow from entering into voluntary resource sharing agreements with their neighbours. However, it must be added that cost saving alone has not been the only motive for ad hoc resource sharing. It has also been used to improve the quality of existing services, as well as augment the range of current service provision.
The *ad hoc* resource sharing model enjoys several advantages compared with other models:

- It arises spontaneously between volunteering councils, without the need for any centralised legislative change or state government administrative directives. It can thus be expected to embody detailed localized knowledge with the real prospect of genuine cost savings for the councils involved. Moreover, the inherent flexibility of this kind of agreement means they can be applied to specific projects or to a more general range of activities.

- *Ad hoc* resource sharing arrangements do not compromise the independence of participating councils in any way and thus do not impinge on either democratic representation or citizen participation.

- Where *ad hoc* resource sharing arrangements do not yield economic benefits, they can be terminated quickly and cheaply through agreement between participating councils.

However, *ad hoc* resource sharing arrangements also have disadvantages. For example, the fact that voluntary agreements can easily be modified or terminated makes them vulnerable to the idiosyncratic characteristics of local governance. Thus the election of new councillors or the employment of a new general manager can disrupt and even destroy the basis for *ad hoc* agreements because they do not have any solid institutional foundations. Moreover, for the same reason, temporary disputes over the operation of *ad hoc* arrangements can readily disrupt or even end their operation.

### 3.2.3 Regional Organizations of Councils

Regional Organizations of Councils (ROCs) are voluntary groupings of spatially adjacent councils. They usually consist of between five and fifteen councils, with considerable diversity in both geographic size and population, and are typically financed by a set fee from each member council, as well as a pro rata contribution based on rate income, population, or some other proxy for size. ROCs are usually governed by a board consisting of two members from constituent municipalities, normally the mayor and one other representative, characteristically an elected
councillor or a general manager, supported by either an administrative structure or specialist committees (Dollery and Marshall, 2003).

Membership of a ROC confers several potential benefits to participating councils:

- Meetings encourage the exchange of common concerns and potential solutions and tend to engender a sense of common destiny.

- Joint forums foster the development of common policy positions that may be better informed as a consequence of the combined expertise of member councils.

- ROCs facilitate the coordination and rationalization of the activities of member councils. ROCs promote cost saving joint purchasing, resource sharing, and other mutually beneficial schemes that may reap economies of scale, economies of scope and enhance capacity.

- ROCs can play a critical political role as regional lobbying groups interacting with state and Commonwealth governments (Marshall et al., 2003).

However, ROCs also have potential disadvantages. For example, ‘it remains uncertain just what combination of characteristics is necessary to create a high-performing ROC’. In a similar vein, ‘there is no clear mix of such variables as rates income, geographical size, population density, cultural homogeneity, length of time since establishment, or industry type, which might help explain why some ROCs are more successful than others’. It thus seems that ‘the critical attributes which contribute to a successful ROC are the intangible factors of commitment, teamwork, regional vision, trust, openness, communication, leadership, and a willingness to cooperate’ (Dollery and Marshall, 2003, p. 244).

3.2.4 Area Integration or Joint Board Models

The Shires Association of NSW (2004) developed a ‘joint board model’ of local government that has attracted much interest. The joint board model is based on the retention of autonomous
existing councils and their current spatial boundaries, but with a shared administration and operations overseen by a joint board of elected councillors from each of the member municipalities. Member councils retain their political independence, thus preserving existing local democracy, whilst simultaneously merging their administrative staff and resources into a single enlarged bureau, in order to reap any scale economies, scope economies, or other benefits that may derive from a bigger administration.

Local government models in the area integration tradition, like the joint board model, rest on two assumptions. Firstly, small councils usually facilitate effective representation, but may not use resources in an efficient manner. Secondly, large municipal authorities are deemed to diminish effective democratic representation and at the same time typically employ resources relatively effectively. In contrast to amalgamation that deals with this trade-off by placing a greater priority on resource efficiency concerns than on questions of representational effectiveness, thus generating bigger local governments, the joint board model seeks to ‘break’ the ostensible trade-off between democracy and efficiency by retaining the desirable democratic and other characteristics of small councils and agglomerating their separate administrative structures in order to capture purportedly efficiency-enhancing attributes of larger municipal bureaucracies. Thornton (1995, p. 1) argued that this is best achieved by area integration models that sever the ‘traditional connection between physical function and geographical boundary, thus capturing the best of all worlds: functional areas big enough to provide economies of (large) scale for the delivery of services and regional coherence, together with political areas small enough to provide intimacy of (small) scale for effective representation and sense of community’.

An essential feature of area integration models resides in the assumption that each council would largely preserve ownership of its existing assets. Thus, in the joint board variation of this kind of model, ‘each member council would retain ownership of all assets, but over time, assessment of usage would determine economic viabilities with potential to dispose of underutilised assets’ (Shires Association of NSW, 2004, p. 7). Nevertheless, according to this conception of an area integration model, ‘transfer of ownership to the Joint Board of assets such as office furniture, equipment, I/T, depots and motor vehicles would be required’. It has been argued that this
attribute imbues the model with the decided advantage of reversibility (Thornton, 1995): If things go wrong, it is feasible to reinstate the earlier status quo.

Additional advantages ascribed to area integration models include ‘increased accountability, public scrutiny and citizen involvement’; ready access to elected representatives; the separation of policy decision making from policy execution; realization of scale and scope economies; social cohesion deriving from small constituent communities; a ‘balance between the social and economic dimensions of municipal governance’; a higher degree of ‘policy coherence’ over a larger spatial area; greater regional participation; a ‘respect for history of communities and preservation of sense of place’; and avoidance of the pooling of reserves and accumulated debts between ‘provident’ and ‘improvident’ member councils (Thornton, 1995). Moreover, under the Joint Board model each constituent council would continue to enjoy full autonomy; ‘it would have the power to determine its range of works and services, and to determine its financial plans to provide the necessary funding’ (Shires Association of NSW, 2004, p. 7).

Area integration models also have potential shortcomings. For instance, organizational complexity would increase substantially and ambiguity might arise over the appropriate institutional site for some decisions with system-wide externalities. Similarly, competing and irreconcilable demands by different member councils can induce conflict. Finally, there exists ‘potential for problems of demarcation and definition between the wide area committee [or joint board] and the integrated local area councils’ (Thornton, 1995).

3.2.5 Virtual Local Governments

The basic model of virtual local government tailored to Australian conditions was developed by Allan (2001; 2003) and refined by Dollery (2003). The model rests on two fundamental presumptions about Australian local government:

- Small councils, with limited populations and a low ratio of elected representatives to constituents, provide superior decision-making units in terms of the appropriateness and effectiveness of service provision since they are “closer to the people”.
• Drawing on the work of Oakerson (1999) on the relationship between the degree of municipal fragmentation (i.e., the ratio of local government entities to population in given metropolitan areas) and the per capita cost of services, Allan (2001) contends that large councils may enjoy economies of scale in the provision of some, but not all, local public goods and services. Allan (2001, p. 27) concludes that ‘the main lesson to draw from Oakerson’s research is that a distinction should be made between the provision of council services and their production’ since ‘the long held assumption that a council must perform both tasks is wrong’.

On the basis of these two assumptions, Allan (2001) argues that it is possible to remove potential trade-offs between council size and council efficiency. This forms the basis for his model of virtual local government that combines the most attractive features of small and large municipalities. Accordingly, ‘if cost efficiency improves for some tasks, but policy appropriateness and service effectiveness deteriorates the bigger a municipality becomes, then an obvious solution is to separate council decision making from council administration’ (Allan 2003, p. 27).

A virtual council tailored to Australian conditions would thus consist of two main elements: Firstly, relatively small councils would encompass elected councillors and a small permanent secretariat. They would decide on questions of policy formulation and monitor service delivery to determine its effectiveness. In a specific metropolitan area several small adjacent virtual councils would share a common administrative structure or ‘shared service centre’ that would provide the necessary administrative capacity to undertake the policies decided upon by individual councils. Service delivery itself would be contracted out either to private companies or to the service centre depending on the relative costs of service provision and the feasibility of using private firms.

3.2.6 Agency Models

Australian local authorities are creatures of their respective state government acts. This means that state governments have final responsibility for efficacious delivery of municipal services.
For example, when particular councils ‘fail’ for various reasons, including inept and corrupt conduct or financial incapacity, then the state government in question can intervene by dissolving an elected council and appointing an administrator to run the council for a designated period. In this sense, municipalities are, in effect, service delivery agencies for state governments that possess a high degree of autonomy over a defined range of functions so long as they carry out their allotted responsibilities adequately.

Given these features of Australian local government, it is possible to conceive of councils as bearing a principal/agent relationship to state governments, charged with delivering services on behalf of state governments in an efficient manner. Along analogous lines, area health boards are elected bodies that oversee the administration of state-financed health services, without producing the services directly themselves.

This conception of the role of councils could be termed the ‘agency model’. Under an agency model, municipalities would surrender completely operational control of the services they direct, but at the same time still enjoy political autonomy as elected bodies for a spatially defined jurisdiction. Thus, all service functions would be run by state government agencies with state government funds and state government employees in the same way as state police forces or state emergency services presently operate.

Elected councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions. For instance, domestic waste removal and disposal would be conducted and managed by a state garbage agency, but the actual frequency of garbage removals would be determined by democratically elected councils. With a predetermined ‘global budget’ for a given council area, individual local governments could express the preferences of their voters in determining the mix of services. Thus, less frequent garbage removal could be traded off against more opulent public parks and recreation zones, depending on the decisions of the council. The composition of municipal services would therefore be chosen by the council whereas the production and provision of these services would be carried out by the respective state government agencies.
In comparison with virtual local government, agency model municipalities would have even less operational control, but roughly the same degree of political autonomy. At least two advantages of an organizational arrangement of this kind can be identified:

- Elected and largely amateur councillors could focus exclusively on ascertaining the tastes and preferences of their constituents, without having to struggle with the complexities of actual service delivery, which would be left in the hands of professional specialist bureaucrats. This would capture the respective comparative advantages of both groups; elected representatives could exploit their skills in local ‘grass roots’ democracy and identify community wants whereas career public servants employ their professional abilities to operate efficient service delivery systems.

- Uniformity in the provision of services might be able to reap scale and scope economies, develop technical capacities, synchronize delivery systems, and enjoy considerable purchasing power.

However, relative to virtual local governments, none of the immense advantages attendant upon competition between prospective service providers, drawn from the private sector, public agencies, and voluntary organizations, would accrue to agency model councils. They would be entirely captive to large state bureaucracies, equivalent to current state education departments or health departments, with a questionable record of cost-effective service delivery.

3.2.7 Amalgamated Large Councils

The most extreme form of centralization occurs when several small councils are amalgamated into a single large municipality. Under this model, constituent councils surrender completely all political autonomy and operational control to the new entity. In both Australia and other countries forced mergers are a highly controversial form of structural change, which we now examine in more detail in section 3.3.
3.3 EVALUATION OF AMALGAMATION

Despite the fact that the doctrine that ‘bigger is better’ in local government still seems to represent the traditional consensus amongst state and territory local government policy makers, successive episodes of council amalgamations in Australia over the years have eroded this consensus to the point where open scepticism amongst the broader local government community has become the order of the day, especially in non-metropolitan areas of the country. In large part, this cynicism derives from a deep disillusionment with the observed real-world outcomes of actual amalgamation programs. For example, despite extravagant claims from proponents of both South Australian and Victorian council mergers in the nineties, the economic results of these programs have been most disappointing. Thus, while the Victorian state government claimed at the time that its radical reform process would generate direct cost savings of 20%, the actual outcome has been a mere 8.5%, most of which has flowed from competitive tendering and not the restructuring program (Allan, 2003, p. 75). In much the same way, the South Australian authorities heralded savings of 17.4%, but in fact only achieved 2.3% (Allan, 2003, p. 75). It should also be added that these realised savings did not take into account some of the direct costs of amalgamation, such as the substantial costs of transforming several small local authorities into a single large entity. For instance, in the case of the 2007 Queensland forced amalgamation program, affected councils estimated transformation costs amounted to around $185 million, were still recurring, and represented a matter of concern for the Queensland Treasury (Queensland Treasury, 2009). In addition, estimated savings neglected the indirect costs of council consolidations, such as lower economic activity and falling employment in rural and regional areas. As a consequence of these disappointing outcomes, many in the Australian local government community are no longer convinced that municipal restructuring based primarily on amalgamation represents an effective means of improving council performance.

This scepticism is widespread. For instance, following the NSW Government Inquiry into the optimal structure of local government in the Sydney metropolitan area, the Inquiry Commissioner (2001, p. 36) concluded the purported benefits of amalgamation that were derived from empirical evidence were ‘suggestive rather than conclusive’. Moreover, in their analysis of both the international literature and Australian experience on municipal consolidation, Dollery and Crase (2004, p. 274) have argued that ‘there are scant grounds for anticipating substantial
financial benefits to flow from amalgamation, except possibly in terms of local government capacity and scope economies’.

In a similar vein, in his assessment of the outcomes of recent council amalgamation programs in New Zealand, Australia (and more particularly Victoria and Tasmania), Britain and Canada (especially Nova Scotia and Ontario) in his book Merger Mania, Sancton (2000, p. 83) concluded that ‘the efficient delivery of municipal services does not require large municipalities’. Allan (2003, p. 80) has also presented a strong case that in Australia ‘at the administrative level the efficiency and effectiveness of a local council is not a function of size’ and ‘all the empirical evidence suggests that big is not better when it comes to local government’. Similar sentiments have been expressed by Allan (2001), Bish (2000), Carr and Feiock (2004), Deller (1998), Dollery (1997), Dollery (2003), Dollery and Robotti (2008), Dowding and Meroupis (2003), Jones (1989), Katsuyama (2003), Leland and Thurmaier (2004), May (2003), Oakerson (1999), Sanction (2008), and Thornton (1995), amongst a host of other scholars.

While the weight of the literature falls overwhelmingly against amalgamation as an efficacious means of improving local government performance, it must be stressed that this view is by no means unanimous. Scholarly work in full or partial support of council consolidation as an effective instrument of local government reform takes three main forms:

- One school of thought contends that municipal mergers achieve some but not all of their intended aims. For example, contributors to Leland and Thurmaier’s (2010) *City-County Consolidation: Promises Made, Promises Kept* examined nine case studies of amalgamation in the United States. Summarising the findings, Leland and Thurmaier (2010, p. 299) observed that while ‘economic development promises have largely been kept’, by contrast ‘promises of increased efficiency have not’.

- A second less equivocal view holds that, on balance, municipal mergers do yield benefits. For instance, in their Local Government Consolidation in the
United States, Faulk and Hicks (2011) provide an empirical analysis of council consolidation for different kinds of local government entity and find that amalgamation generates a range of benefits, especially in terms of improved administrative and technical capacity.

Why has council amalgamation failed to improve the effectiveness of Australian local government? Dollery et al. (2006) have identified four main economic arguments typically advanced in favour of amalgamation and assessed the problems surrounding these arguments in the Australian local government milieu:

1. **Significant economies of scale will flow from amalgamation in Australian local government**

   This claim has proved largely illusory. The term ‘economies of scale’ refers to a decrease in average cost as the quantity of output rises and scale economies are frequently cited as a rationale for larger council jurisdictions. Accordingly, the bigger the jurisdictional unit, the lower will be the per capita costs of service provision. In comparison to its counterparts in comparable countries, excepting New Zealand, Australian local government has a predominantly ‘services to property’ orientation in terms of the goods and services it provides. However, despite its relatively narrow range, Australian local governments still provide a wide range of goods and services that are produced by heterogeneous technological means, ranging from labour-intensive to capital-intensive. Thus, for a given benefit region for a given type of service, there is no a priori reason for different goods and services to exhibit the same cost characteristics.

   By contrast, there is every reason to expect that no uniform pattern of economies of scale will emerge across the range of goods and services produced by Australian councils. For example, it is highly unlikely that the optimal service district for libraries will coincide with, or even resemble, optimal service districts for, say, domestic garbage collection, public parks, or sewage treatment services. Thus while larger councils may capture economies of scale in some outputs, they could equally reap diseconomies of scale in other areas. Sancton (2000, p. 74) has crystallized the argument as follows: ‘There is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas’.
After evaluating the international and Australian empirical evidence on economies of scale in municipal service provision, Byrnes and Dollery (2002) drew three main conclusions:

- ‘Given the mixed results that emerge from the international evidence, it seems reasonable to conclude that considerable uncertainty exists as to whether economies of scale do or do not exist’ (Byrnes and Dollery, 2002, p. 405).

- Existing Australian empirical work was almost uniformly mis-specified and thus did not measure scale economies at all.

- Finally, from a policy perspective, the lack of rigorous evidence of significant economies of scale in municipal service provision shed ‘considerable doubt on using this as the basis for amalgamations’.

Thus while ‘advocates of amalgamation have based their arguments on the proposition that substantial efficiency gains would flow from the formation of larger local authorities’ it is obvious that the ‘research on economies of scale in local government does not support this proposition’ (Byrnes and Dollery, 2002, p. 405).

In this regard, it should be noted that the 2004 NSW amalgamation program invoked the work of Stephen Soul (2000) in his empirical analysis of the relationship between size and per capita service costs in NSW local government. However, as Byrnes and Dollery (2002) have demonstrated, simple statistical correlation between population size and total council costs per capita does not properly measure economies of scale.

Even where economies of scale are significant, this may still not be relevant to optimal municipal size if provision of the service can be separated from production of that service (the so-called purchaser-provider split) because scale economies typically only arise during the production phase. Municipal councils too small to achieve all economies of scale on their own can nevertheless accrue the advantages of any scale economies by purchasing the good or service...
in question from other public agencies or private firms that are large enough production units to secure economies of scale.

As we shall see in section 3.4 of Chapter 3, by forming shared service arrangements with other local councils (through Regional Organizations of Councils, Strategic Alliances and similar institutional vehicles), securing services from other levels of government, or by contracting out service provision to private sector firms, small councils can acquire the quantity and quality of services desired by their limited number of constituents and simultaneously enjoy the cost advantages deriving from scale economies in production.

2. Significant economies of scope will flow from amalgamation in Australian local government. Economies of scope refer to the economic advantages which derive from providing a broad range of goods and services in a single organization, like a local council. In particular, economies of scope arise when the cost of producing a given set of services in a single organization is lower than the cost of those services being produced by a number of specialized organizations. The standard explanation for this lower cost of production derives from the fact that a single organization can attribute the cost of fixed inputs or ‘overheads’, like central administrative staff, computing facilities, and so forth, across many of the services it produces. Thus, if related services are provided by a single council, lower total production costs may follow (Dollery and Fleming, 2006).

In the context of the Australian local government amalgamation debate, scope economies represent an a priori theoretical argument against many small local authorities each providing their own services. It is also an argument against the fragmentation of existing large municipalities into several fully autonomous or privatised business units. However, economies of scope can support the concept of several small and adjacent municipalities forming some umbrella organization, like ROCs, in an attempt to capture scope economies.

3. Improved capacity will flow from amalgamation in Australian local government. A proposition sometimes advanced in the Australian debate over amalgamation is that larger councils tend to possess greater levels of administrative and other expertise, in part due to the
fact that their size permits the employment of specialist skills that cannot be acquired readily by smaller municipalities. Given the increasing burden placed on Australian local government by its state and federal counterparts, through cost shifting and other activities, it is held that this confers a significant advantage on larger municipal units because it enables them to accomplish a wider and more complex range of tasks in a more efficient manner. There seems to be considerable merit in this argument. Small regional and rural councils do struggle in terms of expertise and cannot always use consultants in an effective and prudent way. However, since it is in many respects a variant of the economies of scope argument for amalgamation, many of the same reservations apply. For instance, ROCs may also be able to pool their resources to acquire the skills in question, at no greater cost than to single and larger councils.

4. Administrative cost savings flow from amalgamation in Australian local government.
A fourth economic argument put forward in support of local government amalgamation is that larger consolidated councils economize on their direct costs of administration and the compliance costs imposed on individuals who participate in the municipal political process. Administrative costs include the compensation paid to elected and appointed officials and staff and the overheads (buildings, supplies, utilities, etc.) required to support those officials.

If it is argued that council amalgamations will reduce administrative costs, then this is analogous to arguing that there are economies of scale in the administration of local government, just as there may be scale economies in the production of public services. Andrews and Boyne (2009) have found empirical evidence in support of administrative scale economies in English local government. However, there is no guarantee that such opportunities will always, or even usually, exist. It could just as easily be argued that administrators become less effective the further removed they are from their constituents and operations they are supposed to coordinate. If this is the case, then diseconomies of scale could result, with larger governments requiring proportionately more administrators (perhaps with more layers in the administrative hierarchy). Administrative scale economies could thus be a factor in favour of both larger and smaller local government units. The existence or otherwise of administrative economies thus becomes an empirical issue.
However, it can be argued on grounds of public choice theory that greater difficulties are involved in monitoring large municipalities. Ratepayers (as voters) cannot easily acquire the necessary information to assess whether or not councils are providing ‘value for money’. By contrast, smaller councils are often less complex operations with a greater degree of transparency and consequently more amenable to scrutiny by ratepayers. If smaller municipalities are indeed subject to closer and more informed scrutiny, then it can be anticipated that they could experience greater public pressures to deliver local public goods more efficiently (see, for example, Boyne, 1998 and Bailey, 1999).

Some empirical support exists for this contention. After a study examining American empirical evidence on this question, Boyne (1998, p. 252) concluded that ‘the broad pattern of evidence suggests that lower spending is a feature of fragmented and de-concentrated local government systems’. By contrast, ‘consolidated and concentrated councils tend to be associated with higher spending’. Sancton (2000, p. 75) reached the same conclusion: ‘The public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city-region causes wasteful overlap and duplication’.

As we saw in Chapter 2 of this Report, light has been shed on the efficacy of municipal mergers as an instrument of reform in Australian local government. It is thus worth briefly reiterating some of the views presented in these inquiries on the question of municipal mergers.

While largely concerned with financial sustainability in South Australian local government, the FSRB (2005) also drew various conclusions on council amalgamation. For example, Chapter 6 found that ‘there is no strong relationship between a council’s organisational size and either a strong financial position or a good annual financial performance’ (FSRB 2005, p. 49). In addition, ‘the size and density of councils seem to play little role in explaining the observed differences in the sustainability of the long-term financial performance and position of councils’. The FSRB (2005) thus concluded that because ‘relative growth rates, size and density of councils altogether explain only a fraction of the differences observed in the sustainability of the long-term financial performance and position of councils, other financial characteristics must be more important contributors’. The FSRB (2005, p. 85) also assessed claims made by the South
Australian Local Government Boundary Review Board before its structural reform program, which had the effect of almost halving the number of local councils from 118 to 68 in the post-1995 period, and asserted that ‘recurrent savings’ of $19.4 million per annum and ‘one-off savings’ of $3.9 million would eventuate. In its evaluation, the FSRB (2005, p. 85) observed that ‘whether the ongoing savings have in fact continued is a moot point’ since ‘fewer, larger councils are not the instant or easy fix that many would like to believe’, particularly in ‘non-metropolitan areas dominated by the ‘tyranny of distance’ and other impediments’. This led the FSRB (2005, p. 85) to conclude that ‘amalgamation brings with it considerable costs and often exaggerated benefits’. The Final Report went on to argue for other models of council cooperation, noting that ‘there are many intermediate forms of cooperation/integration among councils, with amalgamation being the most extreme (and confronting) form of integration’. The authors then went on to consider the most promising of these alternative options and found that numerous ‘voluntary arrangements’ in shared services and joint enterprise had proved successful in the South Australian Local government milieu. Finally, it found that both regional organisations of councils and area integration models represented sound models for inter-council cooperation.

Chapter 10 of the New South Wales Independent Inquiry Final Report (2006, pp. 259/260) considered the question of council size and council efficiency. It noted that ‘past local government amalgamations were based on the primary rationale that larger councils with larger populations could exhibit greater economic efficiencies’ on grounds that bigger Local government entities ‘would enjoy lower administrative costs, smaller unit costs of representation, increased purchasing power, improved utilisation of depots, plant and equipment and draw from a more diverse funding base’. After due consideration, the Final Report (2006, p. 261) contended that there existed ‘uncertainty as to whether such a concept has a sound empirical basis’, concluding that ‘achieving increased economies of scale and greater efficiencies through forcible amalgamation seems questionable, and generally not desirable from a Local government or community perspective’.

The Queensland SSS Program Size, Shape and Sustainability: Guidelines Kit (LGAQ 2006) considered the question of structural change in Queensland Local Government and proposed four
different ‘options for change’: ‘merger/amalgamation’; ‘significant boundary change’; ‘resource sharing through service agreements’; and ‘resource sharing through joint enterprise’. Chapter 4 provided a detailed assessment of each of these four options, including tabular summaries of the ‘advantages’ and ‘disadvantages’ of each model. For amalgamation, benefits encompassed ‘a sufficient resource base’, a reduction in the ‘total costs of government’, scale economies, lower staff levels, an ‘opportunity to review’ operations, the rationalisation of assets, improved ‘cross-border’ facility and service utilisation, better promotion of economic development, improved growth management, the ‘formalisation’ of communities of interest, increased political lobbying power, and potential for ‘full-time’ elected representatives. However, potential costs embraced ‘exposure’ to liabilities of other councils, resolving ‘major difference in rates’, fewer grants, high costs of ‘integrating’ constituent councils, reconciling ‘widely differing organisational cultures’, creating ‘differing levels of service in some areas’, diluting existing representation, and the potential that ‘small areas may lose direct representation’.

Chapter 8 the WALGA (2006) Final Report *In Your Hands: Shaping the Future of Local Government in Western Australia* considered municipal mergers as part of a broader range of alternative models of service delivery, in which a ‘state/territory’ model and an ‘industry-owned service provider’ delivering selected services on a regional basis for member councils represented the most favoured option of the Final Report. On the question of council amalgamations, WALGA (2006, p. 70) observed that ‘there was little prospect that forced amalgamations would achieve any lasting community benefit’ on grounds that ‘there is a growing literature and operating experience to this effect elsewhere in Australia’ (WALGA 2006, 70). Chapter 8 concluded that ‘the main benefits [from amalgamation] can be obtained by methods other than enforced structural reform’.

Although the PWC’s (2006) *National Financial Sustainability Study of Local Government* focused largely on local government financial sustainability, it did devote some attention to structural reform. It noted that while the FSRB (2005) ‘indicated that sustainability may be more linked to policy skills rather than size, evidence from other states indicates that scale, and implicitly size, does assist in improving sustainability’. Moreover, this ‘divergence in results is largely due to the majority of SA being an unincorporated zone, which would minimise the
incidence of rural councils that cover large areas with a small population base and limited opportunities for economies of scale’. However, it reiterated that scale economies could best be sought via ‘regional or shared service provision, outsourcing, [and] use of state-wide purchasing agreements’ (PWC 2006, 16). In addition, PWC (2006, 72) argued that whereas ‘structural reform through amalgamations [is] necessary in some instances, each potential amalgamation needs to be assessed carefully to avoid the risk of simply creating large inefficient councils’. It stressed the fact that ‘remote councils’ face ‘higher cost structures’ largely due to the tyranny of distance, which no amalgamation process could remove. Section 2.6.2 of the PWC (2006, 75) report examined the effects of Australian council consolidation programs and concluded that ‘mergers can bring greater financial strength and stability to councils, however, simply merging a number of adjoining unviable councils is unlikely to increase financial sustainability to the stage where there is a single viable council and it may decrease effectiveness and result in greater disputes between councillors based on parochial interests’. Finally, PWC (2006, 149) contended that ‘efficiency, effectiveness and scale’ could be improved through regional service provision, shared service arrangements, outsourcing, state-wide purchasing initiatives, and the like, rather than by means of council amalgamation.

Although boundary changes imposed by state governments on local authorities do not meet the strict definition of amalgamation, they nonetheless represent a form of structural change. While very little analytical attention has been focussed on this approach in Australia, as we have seen, the Queensland SSS Program Size, Shape and Sustainability: Guidelines Kit (LGAQ 2006) considered the question of structural change in Queensland Local Government through ‘significant boundary change’. In its Size, Shape and Sustainability of Queensland Local Government: Discussion Paper, the LGAQ (2005, p. 22) provided a tabular summary of the advantages and disadvantages of ‘significant boundary change’.
### Table 3.2: Advantages and Disadvantages of Major Boundary Change

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
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<tbody>
<tr>
<td><strong>Finance and Resources</strong></td>
<td>• May reduce the resource base of the council from which an area is transferred</td>
</tr>
<tr>
<td>• Creates an enhanced resource base for the recipient council</td>
<td>• Residents of one council exposed to assets and liabilities of the other council</td>
</tr>
<tr>
<td>• Provides economies of scale in servicing the appended area</td>
<td>• May expose major differences in rates between areas of the appended council, although this can be addressed through the use of differential rating</td>
</tr>
<tr>
<td>• Provides economies of scale in servicing the appended area</td>
<td>• May reduce the total amount of the general purpose component of Financial Assistance Grants</td>
</tr>
<tr>
<td>• Provides economies of scale in servicing the appended area</td>
<td>• Involves integration of sometimes widely differing organisational cultures where staff are transferred</td>
</tr>
<tr>
<td>• Provides economies of scale in servicing the appended area</td>
<td>• May result in differing levels of services in some areas e.g.: smaller communities, although this can also be addressed by the use of differential rates and / or a process to equalise services over time</td>
</tr>
<tr>
<td><strong>Organisation and Services</strong></td>
<td>• Potential to rationalise operating assets including, plant and equipment, workshops and depots</td>
</tr>
<tr>
<td>• Opportunities to improve service options and reduce operating costs in many areas, including water supply, sewerage disposal and waste management</td>
<td>• Opportunities to improve service options and reduce operating costs in many areas, including water supply, sewerage disposal and waste management</td>
</tr>
<tr>
<td>• Addresses cross-border utilisation of facilities and services of one council by residents of the other</td>
<td>• Better basis to manage growth across area involved</td>
</tr>
<tr>
<td>• Better basis to manage growth across area involved</td>
<td>• May dilute the existing levels of representation for some residents, although this may not necessarily reduce the effectiveness of representation</td>
</tr>
<tr>
<td><strong>Community and Representation</strong></td>
<td>• Formalises communities of interest that may have previously been divided by council boundaries.</td>
</tr>
<tr>
<td>• Retains separate identities of individual councils</td>
<td>• Formalises communities of interest that may have previously been divided by council boundaries.</td>
</tr>
<tr>
<td>• Retains separate identities of individual councils</td>
<td>• May dilute the existing levels of representation for some residents, although this may not necessarily reduce the effectiveness of representation</td>
</tr>
</tbody>
</table>

*Source: LGAQ, 2005, 22.*

A significant disadvantage, not identified by LGAQ (2005), resides in the fact that a boundary change may ‘cherry pick’ comparatively high density populations, relatively cheaper to service, and which pay comparatively higher rates. For example, in the case of ‘doughnut’ shires adjacent to large regional centres, ‘significant boundary change’ often places residents in comparatively high density properties in areas immediately next to large regional centres and transfers them to these large regional centres. A negative consequence of this approach is to severely weaken the shires from which they have been removed in representational and financial terms. However, ‘significant boundary change’ of this kind could be justified if residents are polled in a referendum or some other democratic forum.
3.4 SHARED SERVICES AND COUNCIL COLLABORATION

3.4.1 Nature of Shared Services

Across Australia, widespread popular concern exists that municipal mergers have not only largely failed to achieve their intended aims, but they have also imposed high unanticipated transactions costs on the councils in question, decreased local democracy, ‘local choice’ and ‘local voice’, had a divisive impact on affected local communities, initiated negative economic, employment and social repercussions on peripheral communities in amalgamated local government areas, and failed to address the problem of financial sustainability effectively (Dollery and Crase, 2004). As we have seen in Chapter 2 and reiterated in section 3.3 of Chapter 3, these sentiments have found formal endorsement in the various national and state inquiries which have been uniformly sceptical of forced merger programs and instead advocated resource sharing, shared service provision and additional collaborative inter-municipal agreements through Regional Organisations of Councils, Regional Alliance Models, and other cooperative arrangements between local councils as the best means of enhancing the operational performance of local government. In particular, collaborative inter-council service provision was seen as superior to forced amalgamation as an institutional means of securing the benefits of scale and scope economies in those selected service areas where these economies existed.

Notwithstanding the policy debate over the merits of compulsory council consolidation relative to collaborative shared service models, on the ground a large number of Australian local councils have long embarked on shared service arrangements of various kinds (Dollery and Akimov 2008). While the vast majority of these arrangements have occurred through institutional arrangements between groups of councils acting in concert, a growing number have taken place between state local government associations and councils in their respective jurisdictions (Dollery, Hallam and Wallis 2008).

Shared services and other collaborative inter-council ventures are common in local government systems across the world (Dollery and Robotti, 2008). While they are described using different terminology in different countries, such as inter-jurisdictional agreements (IJAs) and inter-local agreements (ILAs) in the United States, and shared services in Australia and the United
Kingdom, they typically represent institutional mechanisms for tackling common problems in fragmented local government systems.

We use the term ‘shared services’ in the broad sense to encompass most kinds of inter-council collaborative activity. In his book *Shared Services in Local Government*, Tomkinson (2007, p.2) defined shared services as ‘the shared provision by more than one local council of a specified service in which service aims and objectives are mutually shared and for which local people are the end customers’. He qualified this definition by noting that it ‘clearly implies more than just centralisation (where services are funneled into an existing department as an added-on responsibility) within a single council’. Moreover, ‘it does not rule out sharing without a separate and distinct organisation but stresses that there should be an agreement that delivery of a specified function is the main focus and so is treated as of primary importance’. In addition, it implies that (a) the cooperating local authorities have placed ‘a critical emphasis on “shared” responsibility for end results and/or on “service”’ and (b) that ‘the shared services organisation is typically responsible for providing services to an agreed service level and reporting on service effectiveness, which has positive implications both for benchmarking and for determining the value for money of the services’. While the economic imperative driving the process may initially focus on ‘cost cutting’, the definition ‘specifically permits a more value-oriented approach, seeking to leverage the full potential of shared services as an opportunity to improve public sector value and transform service delivery’. Finally, ‘the definition is independent of whether a private sector firm, a voluntary organization or other public sector bodies are involved as well as ‘independent of the type of governance arrangement used to control the service provision’.

### 3.4.2 Rationale for Shared Services

Despite enthusiasm for shared services as a means of enhancing service provision and reducing the costs of service delivery, a feature of the Australian debate on shared municipal services has been its neglect of the economic and political rationale for shared service models as opposed to other methods of achieving the same outcome, most notably structural reform through council amalgamations.
However, at least some thought has been directed at this important question in some of the recent state-based inquiries into local government as well as other documents. For instance, the Hawker Report (2003) briefly considered the potential for shared services in the Australian local government milieu from the perspective of the Commonwealth government. After a review of submissions made to the Committee of Inquiry in Chapter 5, the Hawker Report (2003: 97) concluded that ‘the efficiencies of local government can be improved through a mixture of changes that may include partnerships, regional cooperation and/or amalgamations’, although it stressed that ‘one answer does not fit all’. It recommended that the federal government should engage ‘established ROCs and other regional bodies which have demonstrated their capacity to be involved in the regional planning and delivery of federal and state government programs’.

Secondly, the South Australian FSRB (2005) *Rising to the Challenge* report addressed the shared services question in passing. The South Australian Report (2005: 85) contended that cooperation through shared service provision ‘can be a practical and cost-effective way for councils to share experience and resources, tackle common tasks, or take advantage of economies of scale’. It argued that existing ROCs and area integration models represented the best institutional vehicles for this purpose. In addition, the South Australian Report identified seven financial and non-financial benefits for councils working together: Lower ‘staff costs’; ‘access to skills and expertise’; ‘exchange of best practice’; ‘procurement savings’ from scale economies; improved ‘community outcomes’; ‘coordinated services’; and ‘improved compliance with legislation and standards’. Recommended areas for cooperation included ‘many administrative services such as IT, payroll and rate administration’.

Thirdly, after questioning the success of council mergers, the NSW LGI (2006) *Are Councils Sustainable* report commissioned work by Byrnes (2005) and Allan (2006) to investigate the types of services most amenable to sharing between councils. Byrnes (2005) found that in regional and rural areas councils could feasibly ‘either pool or share service provision on a regional basis’ in ‘fire protection’, ‘emergency services’, ‘health administration and inspection’, ‘noxious plants’, museums, ‘water and wastewater’, ‘tourism and area promotion’, and ‘saleyards and markets’. Moreover, Allan (2006) identified numerous ‘back office’ and ‘front office’ activities suitable for sharing. In general, the LGI (2006: 262) specified the characteristics
of local government functions amenable to outsourcing, ‘shared service centres’ or ‘independent specialist providers’. These were ‘low core capability’; ‘high supplier availability’; ‘low task complexity’; high economies of scale; highly ‘specialised technology’; and low asset specificity where a ‘limited term contract does not require a supplier buying an expensive asset’.

The LGAQ developed a local government reform program embodied in its *Size, Shape and Sustainability* Review Framework, which was outlined in the *Size, Shape and Sustainability: Guidelines Kit* (LGAQ, 2006). As part of this endeavour, the LGAQ commissioned KM Management Consulting (KMMC) (2005) to consider the problem of shared services. The KMMC Report (2005, p. 2) argued that five major benefits could flow from a shared service arrangement: Scale economies; ‘leveraging of technology investments to achieve cost savings and improved service delivery’; ‘standardisation, consistency and continuous improvement of processes’ to provide improved service provision; ‘achievement of a customer service focus’; and greater concentration on ‘strategic outcomes’.

The Report contended that three main institutional vehicles are suitable for shared service provision: A ‘specific shared services centre’; outsourcing; and partnerships with private firms. Four criteria are proposed in order to identify ‘appropriate’ services for shared delivery:

- Strategic services requiring expert local knowledge should be retained ‘in-house’;
- ‘Non-strategic, low-risk, rule-based’ and ‘high volume transaction processing’ services could be shared;
- Services requiring ‘access to [the] latest technology without ongoing significant capital investment or a requirement for specialist expertise’ could be shared; and
- Services in which expert skills not readily attainable by councils should be garnered through service sharing or outsourcing.

WALGA’s (2006) *Systemic Sustainability Study* briefly canvassed the question of shared services. It maintained that ‘there is much greater scope for resource sharing in the Western
Australian local government sector’. While it cautioned that claims concerning scale economies may be exaggerated, it nonetheless contended that ‘we see particular advantages to the industry of agreed regional pool arrangements for key staff back office services and for some whole-of-region infrastructure services’ (WALGA, 2006, p. 68).

The PWC (2006) National Financial Sustainability Study of Local Government Report considered shared services as a potentially fruitful avenue for improving municipal efficiency. It identified three methods of approaching the problem:

- Cooperative cross-council efforts in the areas of ‘bulk purchase or procurement of goods and services’;
- The development of ‘specialised lead service provider’ in groups of councils, where each member local authority specialises in a particular service and contracts its services to other member municipalities; and
- ‘Shared corporate services’ with joint ‘back-office’ services, including ‘human resources’, ‘finances’, information technology, and ‘administration’ (PWC, 2006, 118-119).

These approaches could generate ‘cost savings, productivity improvements and better training for staff’. However, the PWC Report stressed that ‘in remote and regional areas regional service delivery can be limited by large distances between councils’.

3.4.3 Characteristics of Local Services/Functions Suitable for Shared Service Provision

Drawing on seminal work by Allan (2001; 2003), the NSW LGI (2006) identified the characteristics of services suitable for a shared service arrangement as follows: ‘Low core capability’ of councils; ‘high supplier availability’; ‘low task complexity’; substantial scale economies; ‘specialized technology’; and ‘low asset specificity’:
• **Low core capability:** ‘Core capability’ refers to the ‘steering’ and not ‘rowing’ capabilities of local councils and includes ‘community consultation, policy planning, general governance, service monitoring, regulating private activity and funding public purposes’ and not the actual ‘production and delivery of services’ (Allan, 2001, p. 39). It is commonly argued that without core capability local councils cannot adequately discharge their statutory responsibilities. Even where core capability is ceded to a shared service centre, this still carries the danger that in the event of unsatisfactory performance, or even the collapse of a shared service arrangement with other like-minded councils, a given council will be able to evaluate the problem, extricate itself and continue functioning. Accordingly, core capabilities should only be relinquished with extreme care. It follows that low core capabilities should be shared first.

• **High supplier availability:** Allan (2001, p. 40) considered ‘supplier availability’ as a criterion for deciding on whether or not to outsource a specific local council function and concluded that the ‘competitiveness of the tender’ represented the crucial issue. Tender competitiveness in turn depended on whether ‘there are a large number of potential contractors with the experience, skills and equipment to meet the specific needs of the council’. If these attributes are not present, as we may expect in many regional, rural and remote areas, then outsourcing was unlikely to succeed. However, a shared service arrangement may still be possible through either resource sharing or the establishment of a joint shared service centre, provided the requisite ‘experience, skills and equipment’ could be found.

• **Low task complexity:** The question of task complexity is also an important consideration for either outsourcing or shared service arrangements. Allan (2001, p. 40) argued that ‘complex tasks are difficult to monitor, hard to measure for inputs and require unique expertise to monitor’ and are therefore unsuitable to outsourcing. However, since it is precisely these attributes that
make complex tasks comparatively expensive to perform, ‘task complexity’ in itself should not rule out shared service arrangements.

- **Substantial scale economies:** Allan (2001, p. 40) contends that scale economies are typically associated with ‘specialized products and services that are mass produced and highly standardized’. Byrnes and Dollery (2002) have demonstrated that the existence or otherwise of significant scale economies is difficult to establish and evidence on the matter is mixed for Australian local government. However, as we have seen, Allan (2006) has identified several ‘back office’ and ‘front office’ activities that promise substantial scale economies and thus represent good candidates for shared service models.

- **Specialized technology:** Information technology represents a quintessential and ubiquitous type of specialized applied technology in local government. The costs involved in acquiring IT hardware and software and subsequently maintaining, upgrading and operating this equipment are substantial. Since capital costs are high, IT thus constitutes perhaps the best example of a service suited to shared service arrangements.

- **Low asset specificity:** Allan (2001, p. 40) has argued that ‘where a task requires an expensive and specific asset it may be more cost effective for the council to provide the asset than require a contractor to invest in something that may outlive its contractual life’. However, for precisely these same reasons, shared service models may be suitable.

Allan (2001: 46) has drawn the following conclusion to his analysis of shared service models:

*In the context of local government there is no reason why most core community services (e.g. road maintenance, garbage collection, town planning, recreation facilities and welfare relief services), in addition to backroom support services*
(e.g. finance, IT, HR) could not be delivered or arranged by a central administration unit owned and controlled by several councils.

However, Allan (2001) added two caveats to this general conclusion:

*Individual councils must negotiate performance agreements with a shared service centre that stipulate specific rights and obligations, and*

*A shared service centre must be governed by a board of directors representing each of the participating councils.*

### 3.4.4 Alternative Models for Shared Services

As we have seen in section 3.2 of Chapter 3, two theoretical efforts aimed at classifying Australian local governance in terms of generic models have been developed. Firstly, the LGAQ (2005, p. 15) advanced four different models: ‘Merger/amalgamation’ involving the consolidation of small councils into a larger municipal entity; ‘significant boundary change’ that involves the re-delimitation of local government jurisdictions; ‘resource sharing through service agreements’ involving one local council undertaking specific functions for other partner councils; and ‘resource sharing thorough joint enterprise’, where a group of municipalities combines to perform a given service function.

Secondly, Dollery and Johnson (2005) developed a sevenfold taxonomic classification of alternative models of municipal governance:

- Existing small councils possess the most operational and political autonomy as well as the highest degree of decentralization within the constraints of their respective state government acts.

- The next most autonomous and decentralized model resides in voluntary arrangements between geographically adjacent councils to share resources on an ad hoc basis whenever and wherever the perceived need arises.
• Regional Organizations of Councils (ROCs) constitute a formalization of the *ad hoc* resource sharing model, typically financed by a fee levied on each member council as well as a pro rata contribution based on rate income, population, or some other proxy for size, which provides shared services to member councils.

• Area integration or joint board models retain autonomous existing councils with their current boundaries, but create a shared administration overseen by a joint board of elected councillors. Virtual local government consists of several small adjacent ‘virtual’ councils with a common administrative structure or ‘shared service centre’ that would provide the necessary administrative capacity to undertake the policies decided upon by individual councils, with service delivery itself contracted out either to private companies or to the shared service centre depending on the relative costs of service provision and the feasibility of using private firms.

• The sixth model in the Dollery and Johnson (2005) system is the agency model in which all service functions are run by state government agencies with state government funds and state government employees in the same way as state police forces or state emergency services presently operate. Elected councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions.

• Finally, the most extreme form of centralization occurs when several small councils are amalgamated into a single large municipality. Under amalgamation, constituent councils surrender completely all political autonomy and operational control to the new entity and cease to exist.

Both the LGAQ (2005) typology and the Dollery and Johnson (2005) taxonomy represent useful conceptual tools for scholars of Australian local government. It is possible to locate shared
services within these typologies. For example, under the LGAQ (2005) typology, shared service in its purest form takes place in the form of ‘resource sharing through service agreements’ and ‘resource sharing thorough joint enterprise’. By contrast, under the Dollery and Johnson (2005) taxonomy ad hoc resource sharing models, ROCs, area integration models, virtual local councils and agency models all represent institutional vehicles for accommodating shared services to a greater or lesser degree.

3.5 CONCLUSION

Chapter 3 has outlined various structural models of local government suitable for Australian conditions, it has considered the merits of forced amalgamation and state-imposed boundary changes, and it has examined shared services as the main alternative to forced amalgamation in local government. It has been argued that compulsory consolidation has not met with expectations, a fact recognized in all the recent state and national inquiries into local government. The most promising alternative to forced amalgamation as a means of reaping the benefits attendant upon the scale of service provision resides in shared services and other forms of council collaboration. We have shown that judicious application of the Allan (2001) attributes of municipal services allows us to identify potentially fruitful candidates for shared service delivery. In addition, both the LGAQ (2006) typology and the Dollery and Johnson (2005) taxonomy of alternative models of Australian local government yield insights into how shared services could be developed in practice.

However, the prospect that shared services can indeed generate substantial economies of scale, cost savings and enhanced service provision depends critically on available empirical evidence. Australian and international empirical evidence on scale economies and shared services in local government is considered in detail in Chapter 4.
CHAPTER 4: EMPIRICAL EVIDENCE ON SCALE ECONOMIES AND SHARED SERVICES IN LOCAL GOVERNMENT

4.1 INTRODUCTION

As we have noted throughout this Report, a key feature of Australian local government reform has been the reliance on structural change as a principal instrument of reform. However, structural change can take on a variety of forms ranging from resource-sharing arrangements through to council amalgamation (Dollery and Johnson 2005b). Despite this, a belief persists that ‘bigger is better’ and ‘bigger is cheaper’ on the assumption that local council service delivery is characterised by substantial economies of scale associated with a larger population. Thus it is commonly held that councils servicing a larger population would benefit from lower administrative costs, increased purchasing power and improved utilisation of equipment (Byrnes and Dollery 2002a).

In practice, these claims are empirically testable. However, the existing research in the Australian context is limited and inconclusive (Byrnes and Dollery 2002a). Moreover, while the concept of scale economies is of central importance in determining whether local government entities should consolidate or fragment, it can also play a key role in indentifying what type of services may benefit from a shared services arrangement. In other words, shared services provide an alternative approach to potentially reaping the benefits of consolidation without its associated deleterious costs, such as the loss of ‘local voice’ and ‘local democracy.’ Against this background, Chapter 4 reviews the relevant Australian and international empirical evidence on economies of scale and shared services models.

Chapter 4 is divided into three main parts. Section 4.2 provides a review of the Australian and international empirical literature on economies of scale. Section 4.3 reviews the empirical evidence on shared service models in Australia and abroad. Chapter 4 ends with some brief closing remarks in Section 4.4.
4.2 EMPIRICAL EVIDENCE OF SCALE ECONOMICS

International evidence

Empirical work conducted abroad has generally estimated the relationship between size and the average cost of service delivery. A representative selection of empirical studies is reported in Table 4.1. In most studies, population is used as a measure of scale although several studies measure scale in terms of size of the client’s service group such as the ‘number of people in public housing.’ While earlier studies tended to employ linear functional forms, more recent studies make use of quadratic functions to allow for economies and diseconomies of scale (i.e., a ‘U-shaped’ cost curve).

Table 4.1 Summary of International Research Findings on Scale Economies in Local Government

<table>
<thead>
<tr>
<th>Major findings</th>
<th>Author(s)</th>
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<tbody>
<tr>
<td>Evidence of economies of scale</td>
<td>Alt (1971)</td>
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<td>Boaden (1971)</td>
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<td>Burridge (2008)</td>
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<td>Callahan and Thomas (2001)</td>
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<td>Chicoine, Deller and Walzer (1989)</td>
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<td>Danzinger (1978)</td>
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<td>Garrett (2001)</td>
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<td>No evidence of economies of scale</td>
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<td>Davies, Barton and McMillan (1972)</td>
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<td>Evidence of diseconomies of scale</td>
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Source: Adapted from Byrnes and Dollery (2002a)
Ashford, Berne and Schramm (1976), Davies, Barton and McMillan (1971), Davies, Barton and McMillan (1972) and Jackman and Papadachi (1981) examined the problem of economies of scale by estimating the relationship between total expenditure and population. Ashford, Berne and Schramm (1976) and Davies Barton and McMillan (1971) find evidence of diseconomies of scale while Davies, Barton and McMillan (1972) and Jackman and Papadachi (1981) find no significant relationship between total expenditure and population size.

Holcombe and Williams (2008, p. 359) examined the association between total expenditure and population size using data from 487 US municipal governments and were unable to find a statistically significant relationship ‘for cities smaller than 500,000’ but noted that for larger cities a ‘higher population density is associated with higher per capita government expenditure’. In an ensuing study, Holcombe and Williams (2009, p. 416) present evidence that US municipal government expenditures are most likely characterised by ‘constant returns to scale’ and that there is ‘no reason to think that either consolidations or secessions at the local level would appreciably affect per capita government expenditures’.

Empirical studies that have examined the relationship between housing expenditure and population have produced mixed findings. For example, while Alt (1971), Kleinman, Estall and Roberts (1990), and Lamont (1982) fail to find a relationship between housing expenditure and size, Gupta and Hutton (1968) find evidence of a ‘U-shaped’ cost curve, Nicolson and colleagues (1975) observe scale economies and Pinch (1978) observes scale diseconomies.

Empirical studies that have investigated the relationship between expenditure on fire fighting services and population reveal a similar pattern. Alt (1971), Boaden (1971), and Hirsh (1959) find evidence of a ‘U-shaped’ cost curve, while Danzinger (1978) finds evidence of scale diseconomies and Ahlbrandt (1973) finds no evidence of scale economies. Along similar lines, studies that have examined the relationship between expenditure on police services and size have produced mixed results. Alt (1971), Boaden (1971), and Schofield (1978) suggest a ‘U-shaped’ cost curve, while Danzinger (1978), Finney (1997), Holcombe and Williams (2009), and Ostrom and Parks (1973) provide evidence of diseconomies of scale and Hirsh (1959) and Walzer (1972) find no evidence of scale economies.
In comparison, limited research has been conducted as to whether scale economies are present for domestic waste collection and disposal; an issue that has much relevance in the Australian local government milieu. The first studies in this field were conducted by Hirsch (1959, 1965) who investigated waste collection in the US city of St. Louis, while, more recently, McDavid (2001) examined waste collection in Canada. Hirsch (1959, 1965) found no evidence of economies of scale, while McDavid (2001, 21) found that ‘as households served per truck increase by one household, cost per household decreases by 0.66 cents’.

A number of criticisms can be levelled at the studies listed in Table 4.1. The first criticism relates to their measure of output. The economic theory of economies of scale holds that the average cost of providing a particular service is influenced by the output of the service under consideration. Thus, in order to ascertain whether scale economies exist in local government service provision, it is necessary to correctly specify and measure cost and output.

Many of the studies in Table 4.1 use population as a proxy for output. This approach, however, is only valid if there is a positive correlation between population and service output (Dollery, Byrnes and Crase, 2008). For instance, Boyne (1995, p.219) notes that ‘population is probably a very poor proxy for service outputs’. Furthermore, Boyne (1995) also states that most studies assume that service provision is responsive to need and that population is a proper measure of total need for municipal services. However, local government areas with similar size populations may have different needs depending on their demographic and economic profiles (Boyne 1995; Dollery, Byrnes and Crase, 2008).

Taking this into account, Boyne (1995, p.219) has argued that demand for services ‘may also be positively correlated with population because large authorities tend to be “central places” which are visited by shoppers, tourists and commuters.’ Therefore, it is reasonable to assume that ‘these visitors place extra demands on service provision, above and beyond those of the local inhabitants’ which would, in turn, serve to ‘inflate the apparent level of expenditure per head of resident population in large authorities.’
An additional point made by Dollery, Byrnes and Crase (2008a) is that assuming that population size correctly proxies output ignores considerations of service quality. While state and territory legislation almost always sets minimum standards for the provision of local services, local councils can and do provide services that exceed these minimum standards. For instance, the provision of local services such as sporting facilities can vary considerably between local government areas within the same local government jurisdiction, which, in turn, has an impact on the costs of service provision that are independent of population.

The second criticism relates to the measurement of cost. Boyne (1995 p.219) notes that similar ‘problems arise in the use of expenditure per head of population as a proxy for the cost per unit of service provision’. While it may be appropriate in certain circumstances to assume that total expenditure can be equated with total costs, measuring the total cost of a particular service is often fraught with difficulty, especially with regard to the allocation of overhead and administrative costs. Shepherd (1990, p.214) has canvassed the following argument: ‘True overhead costs often cannot be assigned by objective economic criteria’. Therefore, ‘some sort of arbitrary rules can be used, but a fundamentally “correct” allocation of costs often cannot be determined’. As such, ‘specified cost assignments to specific products are often debatable’.

The third criticism of the studies in Table 4.1 is that they ignore the difference between ‘plant-level’ and ‘firm-level’ scale economies. As noted by Boyne (1995, p.220), the emphasis on population implicitly ‘assumes that the scale effects are a function of the size of a local authority as a whole, not the size of individual schools, residential homes, or leisure centres’. Furthermore, ‘evidence on scale economies in the private sector suggests that it is the output of separate plants which is the key to efficiency, not the output of whole firms’. Therefore, in the situation of Australian local government, ‘it may be the average size of plants which is important, not the total size of the firm’.

Finally, with the sole exception of Gupta and Hutton (1968), none of the studies in Table 4.1 make explicit reference to the long run. If the empirical tests are to effectively measure scale economies, then the time period must be sufficiently long to allow for all inputs in the production process (i.e., labour and capital) to vary. While this may be the case for certain studies, almost no
mention is made of this point and we cannot be sure as to whether scale economies are actually being measured.

The research documented in Table 4.1 does not, however, have a direct bearing on whether there are substantial scale economies in Australian local government. The main reason for this is that Australian local government authorities have a relatively narrow range of functions with an emphasis on ‘services to property’ as opposed to British and US local government authorities that provide a much wider array of services. For example, in the Australian context, education, policing, and social services, almost always fall under the purview of state and territory jurisdictions.

**Australian evidence**

While a range of functions is undertaken by Australian local government the empirical research on scale economies is rather limited. A list of representative studies is reported in Table 4.2. This empirical body of work will be examined in terms of the estimation technique employed; that is, either regression analysis or a comparison of indicators.

**Table 4.2 Summary of Research Findings on Scale Economies in Australian Local Government**

<table>
<thead>
<tr>
<th>Major finding</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of economies of scale</td>
<td>Byrnes, Dollery and Webber (2002)</td>
</tr>
<tr>
<td></td>
<td>Institute of Public Affairs (1993)</td>
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<td></td>
<td>KPMG (1998)</td>
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<td></td>
<td>Local Government Commission (1986)</td>
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<td></td>
<td>Musgrave et al., (1985)</td>
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<td></td>
<td>Office of Local Government (1993)</td>
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<td></td>
<td>South Australian Department of Local Government (1988)</td>
</tr>
<tr>
<td></td>
<td>Soul (2000)</td>
</tr>
<tr>
<td>No evidence of economies of scale</td>
<td>Abelson (1981)</td>
</tr>
<tr>
<td>Evidence of diseconomies of scale</td>
<td>Soul (2000)</td>
</tr>
</tbody>
</table>

Source: Adapted from Byrnes and Dollery (2002a).

**Regression Analysis**

**South Australian Department of Local Government (1988)**

In 1988, the SA Department of Local Government prepared the following report: ‘Scale Economies in South Australian Local Government’, with the objective of estimating:
‘[T]he scale economies of a range of expenditure functions of South Australian Local Government and to assess the relationship between the size of Local Government, the number of functions it performs, and the support it receives from Commonwealth and State Governments through grants and subsidies’ (SADLG, 1988, p.3).

The Department made use of 1984/85 expenditure data for the 123 South Australian councils (excluding the City of Adelaide). The authors sought to determine whether ‘scale economies’ existed for the following local government functions: administration, household garbage, drainage, road construction and maintenance, and recreation and culture. Population was used as a measure of scale. The study also employed regression analysis to overhead expenditure on population. For drainage and recreation and culture, the area in square kilometres was used as a measure of scale. Finally, for road maintenance and construction, total road length was used to measure scale. If the government expenditure fell as scale increased, then the authors concluded that economies of scale were present. Based on this criterion the following government functions showed evidence of scale economies: administration, overheads, drainage and road construction and maintenance.

The main criticism that could be made of this study is that the authors did not attempt to control for a range of factors brought about by the diversity that exists between local municipalities. Consequently, the influence of size upon expenditure may be overstated. Without controlling for other variables that may have a potentially significant relationship to the dependent variable (expenditure) there is no way of ascertaining if this was the case.

**Local Government Commission (1986)**

A similar study of scale economies was undertaken by the Local Government Commission (LGC) of Victoria in 1986. It used 1983/84 data on administrative costs (excluding overheads) for 175 Victorian councils. The LGC selected population as their proxy for output and split councils into two groups: (i) metropolitan municipalities and (ii) rural shires. In both cases the statistical approach used involved regressing per capita expenditure on the log of population. In the case of metropolitan municipalities, a negative relationship was observed between expenditure and population.
For rural shires, a negative relationship was also observed. When analysing the data for the whole state, a similar negative relationship was also observed. Based on these findings, the Commission concluded that ‘there is clear proof that such economies do exist in relation to administration expenses; and the evidence indicates that the economies are significant, especially at the lower end of the scale’ (LGC, 1986, p.22).

A major criticism of this study is that it failed to control for a variety of factors that may help explain the relationship between expenditure and population. The Commission did, however, attempt to control for population density by splitting the log of population into five equal parts and found that ‘in every category there was a statistically significant relationship between administration expenses per head and size’ (LGC, 1986, p.24).

**Victorian Grants Commission (1985)**

In 1985, the Victorian Grants Commission (VGC) examined the issue of economies of scale in local government. The impetus for this study was a request by the (then) Minister for Local Government, Frank Wilkes, who took the view ‘that for local government to truly develop and advance in this state, its structure must change’ (VGC, 1985, p.3). Part of this request was for the VGC to examine whether ‘any clear trends (were evident) which indicate financial savings in administration costs or the provision of economic services’ (VGC, 1985, p.21).

In investigating this question, the actual administration expenditure per capita (including overheads) was regressed on population for all Victorian local governments. The study found a statistically significant negative relationship. The VGC considered that smaller municipalities might have higher administration costs as a result of performing proportionately more functions than their larger metropolitan counterparts. To account for this, the number of functions for these councils was restricted. However, a similar relationship was observed.

The VGC then sought to ascertain whether service provision became more efficient as council size increased. They selected the following dependent variables: expenditure on street cleaning; community and regional development; recreation and culture; and debt servicing. Each dependent variable was regressed on population. Per capita expenditure was found to have a negative
relationship to population with the VGC concluding that ‘the costs of a number of significant services provided by metropolitan municipalities decrease significantly with increases in size’ (VGC, 1985, p.28).

However, it would appear that the VGC chose rather unsuitable proxies for output. Moreover, it is difficult to imagine that the population of a given council is an adequate proxy for output in street cleaning services. Perhaps total kilometres of road length may have been a better indicator. The use of population to measure output is also problematic when taking into consideration expenditure on community and regional development. Although this category was not specified, one could imagine that an improved proxy might be the rate of population growth, since a council with a growing population is more likely to invest in development.

Abelson (1981)

Peter Abelson (1981) conducted the first multivariate analysis to test for evidence of economies of scale in NSW local government expenditure. In this study, total expenditure per household was regressed on median household income; dependants as a proportion of LGA population; political affiliation; rate of growth of LGA; number of households; household density and the amount of Commonwealth grants per household. The data set consisted of 36 LGAs in metropolitan Sydney in 1976.

Using the number of households as the measure for scale, the model did not find any evidence of a relationship between expenditure per household and size. Although Abelson (1981) did include a range of variables in the model to account for differences among LGAs, the main weakness of his study is that expenditure cannot be viewed as a homogeneous entity. The finding that no relationship was observed between the size and expenditure per household may be due to the possibility that the expenditure per household on some services may increase as a council increases in size, whilst average expenditure on others may decline. Perhaps a more profitable approach would have been to disaggregate total expenditure and examine how expenditures on different services vary with size.
Office of Local Government (1993)

In 1993, the Victoria Office of Local Government (OLG) published: ‘Structure and Efficiency: Improving Local Government Efficiency.’ One of the areas the report sought to address was the long standing debate regarding the relationship between the council size and its economic efficiency. In an effort to address this issue, the OLG undertook a statistical analysis similar to those undertaken by the VGC (1985) and LGC (1986). Regression analysis was used to estimate the relationship between total expenditure per capita and population. The report divided all Victorian councils into the following three groups: (i) metropolitan, (ii) provincial, and (iii) rural. This approach was taken in order to compare council performance where a roughly similar range of functions is undertaken. A negative statistical relationship was observed between expenditure and population in all three categories.

The OLG report (1993) is, however, susceptible to the same criticisms cited above. That is, the analysis did not include a range of independent variables that might be correlated with population and, as such, it is not possible to be confident that an increase in population is solely responsible for lower expenditure. An additional criticism is that the authors did not assume a range of functional forms. The assumption that a linear relationship between expenditure and population holds does not allow for the possibility of diseconomies of scale. One way of addressing this limitation is to assume a quadratic relationship, which might reveal an increase in average expenditure beyond some population level.

Musgrave et al. (1985)

Musgrave and associates (1985) sought to address the case that smaller rural shires in NSW were less efficient compared to their larger regional and urban counterparts. Accordingly, the dataset was confined to 24 small NSW rural shires covering the financial year 1979/80, which the authors thought might be leading candidates for amalgamation.

An interesting feature of this study was the effort to select plausible proxies for output. The pertinent variables were found to be: total population; population density; area of council; altitude; ratio of outdoor staff to total staff and ratio of road expenditure to the value of plant (Musgrave et
al., 1985, p.56). The authors concluded that population was the most appropriate proxy for size and made use of this variable when building their regression model.

Rather than using total expenditure per capita as their dependent variable, Musgrave and colleagues (1985) disaggregated total expenditure in an effort to exclude new fixed capital expenditure since this may be an indicator of a council experiencing economic growth (as opposed to some underlying inefficiency). The authors then ran a conventional regression analysis of expenditure per capita (excluding new fixed capital expenditure) on population. In estimating their regression models, the authors made use of following functional forms: quadratic, logarithmic and reciprocal, and found that regardless of which form is employed, evidence of economies of size did exist over a range of output.

**Soul (2000)**

Soul (2000) attempted to examine the effect of size, measured by population, on two broad cost-related categories: gross expenditure per capita and expenditure per capita on economic services. In his data set, which covered the 1995/96 financial year, Soul (2000) included all 177 NSW councils. Using the log of population, Soul (2000, 233) observed that increasing population yields a lower level of gross expenditure per capita up to a size of between 100,000 and 316,000 people, at which point increasing expenditure is experienced. Turning to expenditure on economic services, Soul (2000, 246) once again observed that increasing population yields a lower level of expenditure. However, once population reaches a point between 100,000 and 316,000 people, a higher level of expenditure will be experienced. While studies by Soul (2000) and Musgrave and colleagues (1995) have employed a range of competing functional forms, the use of only one explanatory variable (i.e., population) leaves their conclusions open to a similar line of criticism as their Victorian counterparts.

**Byrnes, Dollery & Webber (2002)**

This study sought to determine the degree of scale economies in NSW domestic waste collection between 1995/96 and 1999/2000. Domestic waste collection was selected for the analysis because it was considered to be a relatively homogenous entity. Employing standard regression analysis,
the study concluded that, when NSW is considered in its entirety, there is some evidence of economies and diseconomies of scale in the provision of domestic waste collection.

The authors, however, added several caveats to this conclusion. Perhaps the most significant pointed out the relatively lower correlation coefficient obtained from the analysis on regional and rural councils; the authors observed that the explanatory power of their model is much lower when applied to councils in regional and rural NSW than to metropolitan councils. Moreover, the results relating to regional and rural councils also indicate that the slope of the cost curve is steeper on both sides of the output associated with minimum efficient scale, suggesting that regional and rural councils may benefit from changing their scale of output relatively more than their metropolitan counterparts. The authors concluded that their findings did not unequivocally support the existence of scale economies in NSW domestic waste collection.

Comparison of Partial Indicators

Institute of Public Affairs (1993)

The IPA study used partial indicators to compare per capita expenditure between all councils in Victoria during 1991/92. It observed that the Essendon council had the lowest expenditure and rates per capita. The IPA argued that if all councils were as ‘efficient’ as the Essendon council, and by extension reduced expenditure to that level achieved by Essendon, then cost savings could be realised. An implicit assumption underlying their approach is that Essendon’s efficiency stems from the fact that it has the largest population of all city councils. The IPA estimates that total expenditure for all inner city councils could be reduced by up to $96 million (a 38% reduction in total spending per annum) (IPA, 1993, 13).

Furthermore, the IPA study extended this principle to all councils in Victoria by repeating the analysis for subsets of councils. For example, all councils in Victoria were grouped into regional precincts and within each precinct an efficient peer was identified. If all councils within each of those groups reduced expenditure to that achieved by its efficient peer, then the total savings were estimated to be $441 million for the state of Victoria.
The first criticism that can be made of this study is that it fails to recognise the great diversity in functions performed by Victorian councils. To assume that rural councils perform exactly the same functions as their metropolitan counterparts is surprising. Moreover, simply assuming that a lower per capita expenditure is a function of size alone discounts the possibility that larger councils may simply have more efficient methods of service delivery. For instance, they may be able to recruit more appropriately skilled staff than smaller rural councils. The IPA, however, does not investigate any other dimensions apart from size and, subsequently, cannot say with any degree of certainty that increasing the size of Victorian councils will result in lower per capita expenditure. One must also be mindful of the difference in the quality of the services delivered by councils. Lower per capita expenditure may be a function of lower quality service delivery.

The authors state that ‘considerable savings (might be made) from reduced administrative expenditure’ (IPA, 1993, p.14). This conclusion, however, ignores the fact that not all expenditure is devoted to administration. Thus, a first step in estimating the potential savings is to discount the results for the share of expenditure that contributes to functions other than administration. Finally, the IPA makes no reference to the costs associated with staff redundancies or the cost of leaving fixed capital idle. These potential costs need to be subtracted from the possible savings in order to calculate the net potential savings to be made from increasing the size of Victorian local government areas.

KPMG Consulting (1998)

The KPMG (1998) was commissioned by the NSW Property Council of Australia in an effort to establish ‘benchmarks’ in service delivery by NSW councils and then determine the ‘cost savings’ that could be achieved if all NSW councils met these benchmarks. The authors (KPMG, 1998, 98) stated that ‘we have taken each individual ROC and isolated the council with the lowest expenditure per capita as a potential gauge of efficiency’. Using this KPMG then ‘identified the expenditure savings other councils within the ROC could potentially obtain in an amalgamated council’. As a consequence, ‘a total expenditure saving is then determined for each ROC’. They concluded that ‘based on this model for reform total savings across NSW local government could be as high as $845 million out of a total cost of $3,821 million’.
In reviewing this report, McNeill (2000, 13) argued that this is a rather simplistic approach to estimating savings. For example, McNeill (2000, 13) disaggregated the New England ROC and argued that ‘the most glaring deficiency in this method of estimation is omission of any investigation of factors (other than “inefficiency”) which might explain why the per capita expenditures are higher in some councils’. McNeill further observed that Dumaresq Shire ‘is assumed to be two and a half times less efficient than Armidale, despite the fact that its population density is 0.92 persons per square kilometre and road length is 799 kilometres compared to Armidale’s 170 kilometres’. Furthermore, she also added that ‘as local government grants commissions in each State have been demonstrating since 1974, there are some very good reasons why per capita expenditures are higher in some areas than others, and “diseconomies of scale” is only one of them … It is also unreasonable to create expectations within proposed amalgamation areas that, say, Armidale can continue to supply services at $850 per head once amalgamated with Dumaresq’.

Three general criticisms can be made of the studies listed in Table 4.2. First, all but one study considered other factors that may be co-linear with population in explaining variation in the cost of municipal service provision. It is possible that a variable such as income changes with population and thus has a role in explaining variation in costs. Failure to account for such variables in the model may overstate the importance of population. Second, all except two studies assumed expenditure to be homogenous. This assumption fails to take into account the diversity in functions conducted by local government and thus makes comparisons between councils fraught with difficulty.

Finally, none of the studies addressed the issues of measuring economies of scale. All of the studies reported in Table 4.2 used data sets that only span one year. In order for an empirical study to examine scale economies, the dataset should cover a period of time sufficient to allow for all factors of production (notably labour and capital) to be varied. Moreover, for those studies that used total expenditure per capita as their dependent variable, one could make the case that a service, such as sewerage, requires a longer period of time for capital to be considered a variable input in the production process. Upon reflection, it could be argued that the studies reported in
Table 4.2 are not measuring scale economies as such, but are, in fact, determining how population influences short-run costs.

4.3 EMPIRICAL EVIDENCE ON SHARED SERVICES

Australian evidence

There is a distinct lack of empirical evidence on the economic effects of shared service arrangements in Australian local government. Moreover, the current body of evidence has been exclusively drawn from surveys and case studies. To date, the existing evidence is derived from three surveys of local councils in SA, WA and NSW, four case studies from SA and NSWs and a literature review undertaken by KM Management Consulting (KMMC) (2005) under the auspices of the LGAQ (2006) Size, Shape and Sustainability Program. By way of summary, all Australian studies find that shared service arrangements can offer benefits. These studies are summarised in Table 4.3 below.

First, in a survey conducted by Lawson (2007), the responses of 34 SA councils were analysed with respect to their participation in joint local service delivery. Lawson (2007) found that:

- While financial benefits were a key reason for entering into such agreements, only a small number of councils realised savings;

- Anticipated financial benefits were not the only reason for entering into shared services agreements (other reasons included access to a wider range of services); and

- There were no new examples of resource sharing initiatives.

In addition, survey responses also identified the six most common areas for shared service arrangements: (i) waste management, (ii) town planning and environment health/development assessments, (iii) shared purchasing and use of physical assets, (iv) back-office operations, (v) access to information technology services, and (vi) audit, compliance, and governance services.
Table 4.3: Australian Empirical Evidence on Shared Service Arrangements

<table>
<thead>
<tr>
<th>Publication</th>
<th>Basis for Argument</th>
<th>Sample</th>
<th>Principal Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawson (2007)</td>
<td>Survey</td>
<td>34 South Australian Councils</td>
<td>Identified seven service areas with the greatest resource sharing opportunities, as well as some impediments to implementation of shared services.</td>
</tr>
<tr>
<td>Burow Jorgensen and Associates (2006)</td>
<td>Survey</td>
<td>55 WA Local Councils</td>
<td>92 per cent of councils were engaged in resource sharing in various areas, including waste collection, recycling and disposal, human resources, information technology, road works, library facilities and so on.</td>
</tr>
<tr>
<td>Byrnes (2005)</td>
<td>Survey</td>
<td>19 NSW Metropolitan and Regional Councils</td>
<td>Identified eight services most suitable for resource sharing and seven services that should be provided locally.</td>
</tr>
<tr>
<td>Dollery and Byrnes (2005)</td>
<td>Case study</td>
<td>Walkerville Council, SA</td>
<td>Listed nine regional co-operative agreements Walkerville had entered into and provided estimates of benefits.</td>
</tr>
<tr>
<td>Dollery, Burns and Johnson (2005)</td>
<td>Case study</td>
<td>Armidale Dumaresq, Uralla, Guyra and Walcha Councils, NSW</td>
<td>Strategic Alliance of the councils brought substantial benefits/savings through collaboration in a number of areas. The beneficiary areas are listed.</td>
</tr>
<tr>
<td>KMMC (2005)</td>
<td>Literature Review</td>
<td>Not applicable</td>
<td>Identified six services most able to be successfully delivered through regional services units and three services most suited to delivery on a shared regional basis</td>
</tr>
<tr>
<td>Local Government Association of Queensland (2005)</td>
<td>Case study</td>
<td>Wellington, Blayney and Cabonne Strategic Alliance, NSW</td>
<td>The Alliance achieved $720,000 savings in the first ten month of operation through co-operative arrangements, joint purchases and staff and resource sharing.</td>
</tr>
<tr>
<td>Dollery, Marshall, Sancton and Witherby (2004)</td>
<td>Case study</td>
<td>Riverina Eastern Regional Organisation of Councils (REROC), NSW</td>
<td>REROC achieved savings of $4.5 million through reduced duplication, joint tendering, regional lobbying and co-operative sharing of resources.</td>
</tr>
</tbody>
</table>

Source: Adapted from Dollery and Akimov (2008).

Second, Burow Jorgensen and Associates (BJA) (2006) conducted a survey of rural and metropolitan local councils in WA. Of the 142 councils invited to participate in the survey 55
councils responded. Of those councils that responded, 92% indicated that they had participated in resource sharing arrangements. High rates of resource sharing arrangements were observed for regional and remote councils. The most frequent types of resource sharing arrangements included: (i) waste collection and disposal, (ii) road works, (iii) shared equipment, (iv) information technology services, (v) personnel resources, (vi) health and planning, (vii) shared library amenities, and (viii) land management services.

Finally, Byrnes (2005) conducted a survey in NSW and identified eight services that were suitable for shared delivery, namely: (i) fire protection services, (ii) emergency services, (ii) planning and health administration, (iv) noxious plants and weeds, (v) museums, (vi) water and wastewater services, (vii) regional promotion and tourism, and (viii) markets and sale yards. Moreover, Byrnes (2005) also identified seven areas that respondents viewed were best provided ‘in-house’ by councils: (i) public cemeteries; (ii) public toilets; (iii) public halls; (iv) swimming pools; (v) sporting fields; (vi) gardens and parks; and (vii) property development.

To date, a total of four Australian studies have provided examples of successful implementation and management of resource sharing arrangements between councils, with particular reference to the cost savings. For example, Dollery and Byrnes (2006) examined the case of the SA Walkerville Council and its experience with shared service delivery involving neighbouring municipalities. The Walkerville Council entered into nine agreements with a variety of local councils to jointly deliver the following services: (i) waste collection, (ii) home care, (iii) crime deterrence, (iv) library amenities, (v) health and environmental protection, and (vi) the mutual delivery of inspection services. These agreements provided a range of benefits to participating councils either in terms of costs savings or an improvement in the range of services provided to citizens.

In a second study, Dollery, Byrnes and Johnson (2005) examined the NSW Strategic Alliance Model designed and implemented by the Armidale Dumaresq, Guyra, Uralla and Walcha councils. The study provided an overview of the potential savings and the areas in which these savings could be realised. These areas included joint plant utilisation, geospatial information services, information technology, finance, personnel resources, payroll, records, stores, and
supplies. The paper, however, had a major limitation; it only reported estimated savings as opposed to actual savings realised.

The 2005 LGA (Queensland) Size, Shape and Sustainability discussion paper cited the strategic alliance between the three NSW rural councils of Wellington, Blayney, and Cabonne as a successful example of an operational shared services model. The authors reported that the councils had achieved a cost saving of $720,000 during the first ten months. Major savings were achieved in the following areas: occupational health and safety training, staff secondment, administration of road maintenance, and promotion and tourism.

A case study undertaken by Dollery, Marshall, Sancton and Witherby (2005) examined the resource sharing arrangements of the Riverina Eastern Regional Organisation of Councils (REROC). The REROC resource sharing arrangement, which involves thirteen councils in NSW, has been in operation since 1998. Between 1998 and 2003 this arrangement achieved an estimated saving of $4.5 million. Areas in which this resource sharing arrangement proved most beneficial included: (i) waste management, (ii) tenders and joint purchasing, (iii) information technology, (iv) administration and compliance activities and (v) lobbying initiatives.

The final study of the Australian empirical literature is the KMMC (2005) Shared Services: Queensland Local Government report. This report argued in favour of the provision of shared services by local government in Queensland and based its belief on theoretical arguments and a review of related research. However, the report, failed to recognise the distinction between shared services models in local government per se and all levels of government and therefore included a large number of extraneous references and a lack of explicit examples to demonstrate the potential benefits of shared service arrangements.

**International evidence**

There is a growing body of international evidence on shared services. In Britain, the issue of enhancing the productivity of public service delivery was the core focus of the Blair Government following the release of the ‘Gershon Review’ in 2004. In Britain, local councils are required to submit bi-annual Local Authorities Efficiency Statements. More specifically, local councils are
required to outline their plans for productivity improvement in local service delivery, followed by an ‘end of year’ report on whether agreed targets were met. For brevity, as the findings are largely similar for both the years 2004/05 and 2005/06, we opt to report the results for 2005/06 financial year.

Many British councils report joint service delivery arrangements as a means of delivering cost savings and improving the range of services delivered. The most commonly cited areas include joint procurement, information technology and human resource services, back-office functions and compliance (Communities and Local Government [England] 2006a; 2006b; 2006c; 2006d; 2006e). For instance, the Worcestershire County Council (2006) realised gains of £503,000 in procurement through consortium arrangements.

A second case of successful shared service delivery is presented in a report by the consultancy group PriceWaterhouseCoopers (2005, 25). According to the report, the Anglia Revenue Partnership created a shared service centre to provide benefits for the constituents of two rural councils. The study asserts that both councils realised top quartile performance in addition to substantial savings.

Further empirical evidence from the UK is derived from a survey commissioned by Serco Solutions in 2005. The results from this survey are based on interviews with senior finance managers in 102 local municipal authorities across England (26% of all local authorities). Of the total respondents, 86% reported that they had no objections to shared service delivery. Moreover, respondents also indicated the areas they believed would most benefit from shared service arrangements. These included: revenue and benefits administration, transactional services, information technology, waste management, ‘back office’ services, contact centres, procurement services, and human resource services. The survey also offered insights into the apparent barriers associated with entering into shared service arrangements. These included: (i) too many decision-makers, (ii) difficulty reaching an agreement on the ‘correct’ approach, (iii) differing objectives, (iv) potential loss of intellectual property rights, and (v) inadequate benefits accruing from shared service arrangements.
Murray, Rentell and Geere (2008) examined the benefits of procurement shared service arrangements for 15 local government councils in England. Administering semi-structured interviews to collect data from key stakeholders, the authors were able to explore the experiences of six English procurement shared service arrangements covering the 15 councils. The results indicated that some smaller councils benefited from being involved in such a collaborative arrangement. Furthermore, an additional benefit identified by the authors was that ‘the collaborators were engaged in strategic procurement initiatives which would not otherwise been possible through the use of consortia’ (Murray and Rentell, 2008, p.540).

An increasing number of US studies have employed standard statistical and regression-based techniques to examine a range of issues relating to shared services. For example, based on a study of 209 US local government municipalities, Hawkins (2009) identified that the three most commonly cited reasons for establishing a joint venture were to: (i) improve a city’s economic advantage; (ii) secure resources that would not otherwise be available; and (iii) take advantage of scale economies. Chen and Thurmaier (2010) found that among local municipalities in Iowa the equitable sharing of benefits was an important factor in the success of interlocal agreements.

In further research, Hawkins (2010a; 2010b) employed logistic regression techniques to investigate: (i) the conditions under which US local government entities were likely to establish joint ventures; and (ii) the role of formal institutions in influencing the establishment of these agreements for economic development. Hawkins (2010a) observed that collaboration on joint ventures for economic development is influenced by a range of factors including high levels of social capital and frequency of communication between key stakeholders. With regard to the role of formal institutions, Hawkins (2010b) provided evidence that a ‘mayor-council’ form of local government is more likely to pursue and engage in ‘developmental’ joint ventures (as opposed to a ‘council-manager’ form of local government). An example of a ‘developmental’ joint venture would be when two local councils agree to develop vacant land spanning each other’s border. One possible explanation for this finding is that new development ‘provides a way for elected officials to claim for the benefits that can be directed to certain constituent groups’ (Hawkins, 2010b, p.382). In examining this question further, Hawkins and Feiock (2011) used logistic
regression on pooled survey data from the same US cities at two time points and found that previous collaborative agreements influenced future cooperative involvement.

A series of US empirical studies on shared services has also been conducted by LeRoux and Carr (2007), LeRoux and Pandey (2011) and LeRoux and Carr (2010). In an attempt to explain local government cooperation on public services among municipalities in Michigan, LeRoux and Carr (2007) found that collaboration is influenced by a host of factors including (i) economic factors, (ii) population growth, and (iii) the characteristics of the neighbouring communities. In a quantitative case study, LeRoux and Carr (2010) also explored the structure of interlocal agreement networks among 44 local government entities in Wayne County, Michigan. Results suggest that municipalities cooperated more extensively for local public services, such as water management and waste disposal, compared to ‘lifestyle services’, such as parks. Moreover, local municipalities are more likely to enter into interlocal agreements when senior local government administrators belong to the same professional associations. In an additional study, LeRoux and Pandey (2011) examined the influence of managerial career advancement on interlocal service delivery. Employing regression analysis, the authors found evidence that large US municipalities with managers motivated by career progression were more likely to pursue interlocal service delivery arrangements.

Kwon and Feiock (2010) contended that intergovernmental agreements are best viewed as a two stage process and used a two-part Heckman probit model to examine this process. In the first stage, communities consider whether to collaborate or not and, in the second stage, the likelihood of entering into an interlocal agreement is conditional upon the likelihood that a community has a preference for collaboration. Based on survey data, the results support a two stage process. In the first stage, collaborations are ‘likely to be considered in relatively affluent cities experiencing population declines and deteriorating economic conditions’ (Kwon and Feiock, 2010, p.881). In the second stage, the ‘at-large’ election of US councillors (compared to district systems) and a history of previous interlocal fiscal relations was predictive of forming an agreement.

Ruggini (2006) provided a number of examples of successful shared service arrangements. They fall into areas such as joint procurement, emergency services, as well as records management.
Along similar lines, Honadle (1984) reported successful inter-municipal cooperation cases in procurement, information technology, police and fire services, health services and bus system operation. Both studies highlight the potential difficulties in implementing shared services agreements, like complex legal issues related to cost sharing, and concerns regarding the loss of local control over functions by local government authorities.

Derman and Gates (1995) based their analysis on a 1991 survey by the New Jersey Department of Community Affairs. Over 400 ‘interlocal’ service programs are operated by New Jersey municipalities, including 38 purchasing cooperatives and over 20 joint insurance funds. The authors argue that for nearly all local government functions, there is scope to implement shared service arrangements. In a similar vein, a survey of 1,283 municipalities conducted by the International City/County Management Association (2002) illustrated that the most popular shared functions were water and waste management, health and human services, taxation and legal matters, and the operation of bus transit systems.

Finally, an interesting Canadian study is a joint task force report of the Alberta Association of Municipal Districts and Counties and the Alberta Urban Municipalities Association (AAMDC/AUMA) (2004). The study was based on a survey of members and while the report does not provide specific examples or benefits of shared service arrangements, it does suggest 36 possible areas for collaborative service delivery. Furthermore, it also lists 17 potential barriers to collaborative arrangements.

**Implications of empirical evidence**

While the findings from Australian and international studies differ, it is still possible to identify some general conclusions from the current body of literature. The following broad observations seem to be justified:

1. Shared services arrangement can improve the efficiency of service delivery;
2. Some services seem to be more amenable to shared service arrangements than others;

3. Common areas of success include IT, human resources, procurement, and waste management;

4. The degree of success varies considerably from case to case;

5. Identifiable barriers to the implementation of shared services agreement are difficult to resolve; and

6. Common barriers to the establishment of shared services agreements include the loss of ‘local identity’ and control, and increasingly complicated administrative and management processes.

7. The body of empirical work discussed above indicates that shared service arrangements may provide a useful cost-reduction and quality-enhancement tool.

4.4 CONCLUSION

A controversial dimension of local government reform in Australia has been the policy of restructuring through the amalgamation of smaller councils into larger local government authorities (Byrnes and Dollery 2002a). The rationale for consolidation is derived from the widespread assertion that larger local government authorities would be economically more efficient than their smaller local government counterparts. Claims of ‘bigger is better’ rest on the assumption that local government service delivery is characterised by considerable economies of scale. Thus, larger councils servicing a larger population would benefit from relatively lower administrative costs, increased purchasing power, and improved utilisation of equipment.

In general, labour-intensive services, such as council rangers, would be likely to generate few economies of scale because their idiosyncratic nature means that an increased volume of services
may require a correspondingly larger number of workers. In contrast, capital-intensive services, like domestic water supply, usually yield substantial economies of scale since the cost of fixed assets can be spread across a larger number of households. However, the existing body of research on economies of scale for labour-intensive and capital-intensive local government services is mixed and inconclusive.

Chapter 4 has significant bearing on both the Deloitte Access Economics (2011) Report and the Munro Report (2011) which have reignited the local government reform debate in Tasmania with an agenda largely framed around the need to ‘rationalise’ the number of local councils and councillors. Despite the argument in these documents that local government consolidation will reduce unit costs of services, the empirical evidence on scale economics as surveyed in Chapter 4 is inconclusive. Moreover, it is important to note that the Deloitte Access Economics (2011) Report and the Munro Report (2011) do not accurately assess the existing empirical evidence nor do they acknowledge fully the limitations associated with using population size as a measure of scale. The limitations associated with the measurement of scale economies as presented in the Deloitte Access Economics for the Property Council of Australia (Tasmania) are discussed in detail in Chapter 7 of this Report.

The Deloitte Access Economics (2011) Report has estimated the relationship between service output (usually measured in terms of population) and the average costs of services (usually measured in terms of expenditure per capita). However, the following criticisms can be levelled at these studies:

1. Population may be a poor proxy for output. For instance, local government areas with similar sized populations may have different needs depending on their economic and demographic profiles (Boyne 1995; Dollery, Byrnes and Crase, 2008);

2. Population as a proxy for output ignores the service quality dimensions (Dollery, Byrnes and Crase, 2008);
3. The emphasis on population effectively ‘assumes that the scale effects are a function of the size of a local authority as a whole, not the size of individual schools, residential homes, or leisure centres.’ Furthermore, ‘evidence on scale economies in the private sector suggests that it is the output of separate plants which is the key to efficiency, not the output of whole firms’ (Boyne 1995, p. 220);

4. The vast majority of studies – apart from Holcombe and Williams (2008; 2009) – do not disentangle the relationship between population and population density; and

5. With the exception of Gupta and Hutton (1968) none of the empirical studies referred to in this Chapter make reference to the long run. If the empirical tests are to satisfactorily measure scale economies, the time period must be long enough to allow for all inputs (such as labour and capital) to vary in the production process.

Critics point to the controversy generated by local government amalgamation, the absence of authoritative evidence of scale economies, the equivocal outcomes documented in case studies, and the reduction of local democracy. Moreover, structural change through amalgamation is often met with an argument for the implementation of shared service arrangements between local government entities.
CHAPTER 5: CASE STUDIES OF AMALGAMATION, BOUNDARY CHANGE AND SHARED SERVICES

5.1 INTRODUCTION

Chapter 3 considered the question of structural reform in Australian local government by delineating alternative structural models, it tackled the debate surrounding forced amalgamation, as well as state-imposed boundary changes, and it presented the chief alternative to compulsory consolidation in the form of shared services. Chapter 4 provided an in-depth analysis of Australian and international evidence on shared services and scale economies in local government services and functions. Chapter 5 extends this line of inquiry by examining real-world successful and unsuccessful case studies of amalgamation, boundary change and shared service models.

Chapter 5 is divided into four main parts. Section 5.2 sets out two case studies of amalgamation in the form of the successful South Australian City of Onkaparinga merger and the disastrous Delatite Shire amalgamation and de-amalgamation in Victoria. Given the fact that only a single case study of boundary change has been examined in the scholarly literature, section 5.3 considers the case of boundary change involving the South Australian City of Mount Gambier and the District Council of Grant. Section 5.3 examines two case studies of shared services: the Wellington-Blayney-Cabonne Strategic Alliance of Councils (WBC) and the New England Strategic Alliance of Councils (NESAC). Chapter 5 ends with some brief concluding remarks in section 5.5.

5.2 AMALGAMATION

5.2.1 Success: City of Onkaparinga

Situated on the outskirts of Adelaide, the City of Onkaparinga arose as a consequence of the 1990 South Australian amalgamation process from the merger of Happy Valley and Noarlunga Councils, together with most of Willunga Council (ACELG, 2011). The result was the creation
of the largest South Australian local authority with a population in excess of 145,000 people (now about 160,000 residents). An ACELG (2011) study of the Onkaparinga amalgamation interviewed some participants and drew on ‘a detailed review of the process of forming Onkaparinga and its initial year of operation’ by the South Australian Local Government Boundary Reform Board (LGBRB) in 1998.

In common with Queensland (and unlike Victoria) existing local councils stayed in place until the new Onkaparinga Council was elected. The number of councillors was reduced from 28 to 21, with nine wards plus a popularly elected mayor. About 75% of these representatives were from previous councils, providing some continuity.

ACELG (2011, p. 89) noted that the Onkaparinga amalgamation was ‘unusual’ on several grounds:

- It created the ‘largest South Australian council by population (though Onkaparinga is well below the size of the largest Queensland or NSW councils)’.

- The merger ‘involved the division of an existing council area, with a small part being involved in a separate amalgamation. This was rare in the South Australian amalgamations where there was a strong preference to amalgamate whole councils wherever possible’.

- Affected councils made an ‘explicit decision to regard the amalgamation as an opportunity to create a completely new organization. Even though Noarlunga was considerably larger than the other two councils and its offices became the main administrative base of the new council, a key objective was that the amalgamation was to result in a completely new council and not just a takeover’.
The ‘new council’ objective was addressed through several strategies, including (a) a process of assessing and selecting the best of the existing systems from across the three councils and not just adopting those from the largest council; (b) the early appointment of a new CEO not from the merging councils and (c) the decision to adopt a new name that was symbolic of the whole region to be represented by the new council and which did not involve any of the names of the old councils.

With respect to outcomes, in 1998 the Reform Board found the Onkaparinga amalgamation was a success. This has been confirmed by subsequent developments.

ACELG (2011, pp. 91/93) considered four main outcomes:

**Cost reductions and greater efficiency**
The LGBRB concluded that the new council would save over $7 million in the first three years and $4.5 million in the third year. The costs of the amalgamation process itself were offset by one-off savings, through the sale of surplus equipment and properties, etc. ACELG (2011) has argued that ‘the Board’s early findings appear to have been borne out in the longer term, as the council has been able through its expanded expertise and strategic capacity to achieve greater economies of scale after the initial “bedding down” period. While all parts of the council area have benefitted from this, it is probably the communities of the smaller former councils that have gained the most in relative terms’.

**Improved strategic capacity**
ACELG (2011) observed that the ‘new council’s increased size in both a geographic and population sense also gives it a greater ability to deal with growth issues in a more holistic way. In effect, Onkaparinga operates as a regional council for the whole area of Adelaide’s southern suburbs, eliminated the previous jurisdictional boundaries to growth management’. In addition, ‘the increase in strategic capacity has also improved the ability of the amalgamated council to apply for substantial state and federal government grants and to undertake major projects at a larger scale than was possible in any of the previous councils’. Furthermore, ‘Onkaparinga’s
increased strategic capacity as well as its increased size has enabled it to attract high-quality staff and to provide enhanced career paths within council for its existing employees’.

**Democratic representation**

While the amalgamation ‘did not involve a significant overall reduction in councillor numbers, with the new council having 20 councillors initially in nine wards and a popularly elected Mayor’, the result was ‘little change in the level of representation’.

**Enhanced service delivery**

ACELG (2011) noted that ‘while there were early improvements in service levels in areas such as infrastructure provision, inspectoral services, library services and environmental services, it was soon recognized that at least in the initial period after amalgamation’, resulting from the adoption of a ‘best of the best policy’, it was realized that ‘strict adherence to this policy would increase costs beyond the level anticipated in the amalgamation proposal’. However, ‘subsequent improvements have been achieved because of the potential the council merger provided to take a fresh look at approaches to service delivery, as well as the opportunities to reallocate staff across a wider area and to engage employees with more specialised skills’. Moreover, ‘Onkaparinga’s size and relatively large resource base also means that council has greater flexibility to experiment with innovative projects and service delivery models’.

In sum, it would appear that the Onkaparinga amalgamation has, on balance, proved successful. However, it should be stressed that ACELG (2011) investigated neither whether either cost savings had been achieved nor whether scale economies had been reaped. No attempt has been made to calculate the direct costs of amalgamation and thus claims that these were somehow recouped should not be taken at face value.

**5.2.1 Failure: Delatite Shire**

Under the radical reform program launched by the Kennett government in 1994, the number of Victorian councils was reduced from over two hundred to only 78 local authorities. The program was conducted under the auspices of the *Local Government (General Amendment) Act 1993* which conferred upon the Victorian Governor-in-Council the powers to make boundary changes
to local government without the threat of legal appeal. Elected councils were dismissed and administrators appointed in their place to implement the compulsory consolidations recommended by the newly created Local Government Board. In contrast to metropolitan areas, where council boundaries were comparatively arbitrary and residents imbued with little ‘sense of place’, the process was especially controversial in country Victoria, given much stronger community of interest factors, more intense feelings of attachment to local government jurisdictions by the local population, and the greater weight of the tyranny of distance (Dollery, Grant and Kortt, 2011).

The explicit aim of the amalgamation process was to increase the efficiency of local government through a combination of scale economies and competition stimulated by Compulsory Competitive Tendering (CCT) harnessed to induce cost savings. Since the costs of forced mergers had to be borne by affected councils themselves, and Commissioners were simultaneously instructed to secure 20 per cent in cost savings, the pecuniary consequences of the process were severe for less affluent municipal entities, resulting in financial hardship, a sharp decrease in service capacity, and a fall in service provision.

As a direct consequence of the Kennett local government reform process in Victoria, in November 1994 Delatite Shire was established through an amalgamation of the City of Benalla, a substantial proportion of Benalla Shire, Mansfield Shire and parts of Violet Town Shire. The resulting 22,000 population entity was ‘a very long and thin municipality stretching approximately 155 kilometres from end to end’, but only 40 kilometres wide, with the ‘relationship between the northern section of Delatite and the Mansfield region limited, reflecting the different economic bases of the northern and southern ends of the new Shire’ (Chen, 2002, p. 3). The initial community reaction to the amalgamation decision was ‘strongly negative’, especially in Mansfield, ‘with between 700 and 1,000 residents undertaking a protest in the main street of the town’. However, the forced merger proceeded with the dismissal of the three Councils and the appointment of three Commissioners to administer the new Shire.

Chen (2002) has argued that from the onset the ‘transition to democratic government in the Shire of Delatite was problematic’. The transfer of authority from the Commissioners to the new
elected Delatite Council in 1997 coincided with several problems: the Shire’s CEO departed; compounding financial stress derived from the freeze on rates, the costs of amalgamation, and superannuation liabilities; and the Shire’s road base began to deteriorate rapidly as a consequence of reduced expenditure. As mounting problems emerged, the Mansfield community ‘continued to criticize the new Council, arguing that the merger had not been successfully considered or implemented’. Moreover, ‘as resources that had previously been spent on service delivery were diverted towards finalising the amalgamation process, these complaints began to take the form of a call for de-amalgamating the Shire’ (Chen, 2002, p. 5).

Community unease at the new shire was further crystallised by the new Council’s decision to consider purchasing new facilities in Bennalla, which was interpreted as a move towards the centralisation of Council staff in Bennalla at the expense of Mansfield. Moreover, the Kennett government lost power at the 1999 state election, raising the prospect that the new Victorian government would permit de-amalgamation. In addition, in 2000 the Mansfield and District Ratepayers’ Association (MADRRA) was formed on an anti-amalgamation platform and ran candidates in the subsequent council elections. In the second post-amalgamation council elections, four MADRRA candidates were elected, giving it four of eight councillors. The resultant stalemate induced the Minister for Local Government to set up a review to be conducted by a Local Government Review Panel (LGRP) funded by Delatite Shire. The review process produced a Green Paper, an economic evaluation of the viability of new councils, an extensive community consultation, which included a call for written submissions, and a survey of community attitudes, as well as a report entitled Review of the Possible Restructuring of Delatite Shire: The Report of the Local Government (Delatite Shire Council) Review Panel (Victorian State Government, 2002),

The LGRP focused special attention on the question of the financial viability of de-amalgamated municipal entities centred on Benalla and Mansfield and concluded inter alia that the proposed new local authorities would be financially sustainable with rate increases of 12 per cent for Benalla and 16.8 per cent for Mansfield. However, the LGRP (2002, p. 18) added the caveat that ‘the new southern shire (Mansfield) will be very small, able to provide very basic services only and will have difficulty in providing for capital works, despite a significant increase in rates’.
Despite this misgiving, the Victorian government accepted the recommendations of the LGRP Board’s findings. In 2002, it announced that the Delatite Shire would be abolished and replaced by Benalla Shire with 13,500 residents, and Mansfield Shire with a population of 6,600 people.

What lessons can be learned from the amalgamation and ensuing de-amalgamation of Delatite Shire? ACELG (2011, p. 124/125) contended that six general conclusions can be drawn. In the first place, ‘hasty and poorly planned amalgamations, which do not involve adequate consultation, will result in poor outcomes and disaffected communities’. Secondly, ACELG (2011, p. 124) stressed that the sorry Delatite Shire episode does not represent ‘an argument against amalgamations per se’ on grounds that an ‘adequate consideration of strategic capacity probably would have highlighted the lack of a substantial rationale for merging such disparate and far-flung communities as Benalla and Mansfield and looked at other options instead’. Thirdly, they unsurprisingly concluded that ‘well-organised grassroots campaigns can achieve significant outcomes’, such as de-amalgamation. In addition, the success of the Delatite anti-amalgamation campaign has inspired similar crusades in councils faced with forced mergers in other states, like Pittwater and Hunters Hill in New South Wales, as well as Walkerville in South Australia. In the fifth place, ACELG (2011, p. 124) claimed that ‘there is a lingering question mark over the extent to which Mansfield residents – let alone the whole Delatite community – supported de-amalgamation and the attendant costs’ since no definitive referendum was ever held. Finally, ACELG (2011, p. 124) reiterated that ‘there are obvious lessons for governments that community consultation has to be undertaken comprehensively and seriously when major structural changes to local government such as amalgamations (or de-amalgamations) are contemplated’.

A more general conclusion would point to generic difficulties surrounding the amalgamation of non-metropolitan councils, with the partial exception of so-called doughnut shires encircling substantial country towns characterized by high levels of inter-jurisdictional externalities (Dollery and Crase, 2004). In essence, the economic significance of local councils in small centres, especially in employment terms, limited scale and scope economies, high transactions costs attendant upon mergers, the importance of a ‘sense of place’ for residents (often closely
linked to a local government area), a fear of a loss of ‘local voice’ and local choice’, and the 
sheer spatial size of many proposed consolidation plans place inhibitive constraints on the utility 
of amalgamation as an instrument of reform in country regions.

5.3 BOUNDARY CHANGES

In 2010, the City of Mount Gambier and the District Council of Grant underwent the most 
significant boundary adjustment in South Australia since the 1996/97 amalgamation process. 
ACELG (2011, pp. 101/104) provided a synoptic review of the nature and outcomes of the 
boundary change.

Mount Gambier is the second largest city in South Australia with a population of around 25,000, 
whereas the District Council of Grant was created in 1996 from the amalgamation of the District 
Councils of Mount Gambier and Port MacDonnell and it has a population of 8,500. Both 
councils are members of the South East Local Government Association (SELGA), which 
undertakes a coordinating, advocacy and representational role on behalf of its member councils. 
The two councils had a long and cordial experience with share services and advocacy, as well as 
an established history of providing shared services to their residents, covering matters like 
libraries and roads.

In 2008, the District Council took the lead in preparing and negotiating the details of the 
proposal for the extension of the Mount Gambier boundary by relinquishing some areas to 
Mount Gambier. The proposed boundary adjustment involved the transfer of five parcels of land 
from the District Council to Mount Gambier Council containing around 695 hectares, including 
the Mount Gambier TAFE/Uni SA Campus, commercial areas and large areas for urban 
residential development. The Boundary Adjustment Facilitation Panel (BAFP) required that 
council initiated proposals be jointly submitted by all affected councils and provide information 
on social and statistical data; community of interest; financial information; council representation 
arrangements; and consultation with the community and key agencies.

With respect to outcomes, the BAFP recommended that the proposed boundary change be 
proclaimed. The change was gazetted on 17 June 2010. The boundary adjustment resulted in
twenty five percent additional land for Mount Gambier and Grant received a payment of $900,000. According to ACELG (2011), cost reductions and greater efficiencies did not flow, but were also not intended, since the changes were undertaken to facilitate long term planning and land use. Regarding democratic representation, the total population affected amounted to 250 residents.

ACELG (2011) drew several ‘key lessons’ regarding boundary changes:

- By taking a lead in initiating the structural reform, rather than leaving it to other key local and state government bodies, the District Council was able to negotiate an outcome which best suited its long term objectives.

- The willingness of both councils to work as a genuine partnership was a factor in the success of the boundary reform and in shared service arrangements. The councils are advocating a better-resourced regional organization of councils to facilitate greater efficiencies and improved service delivery to their communities.

At a more general level, it can be argued that the City of Mount Gambier and the District Council of Grant experience represented a quintessential ‘bottom-up’ episode in local government reform since both councils not only agreed to the boundary changes, but proposed them to the BAFP. It is thus the precise opposite of ‘top-down’ policy making where state departments impose structural change on unwilling local authorities.

5.4 SHARED SERVICES

5.4.1 Success: Wellington-Blayney-Cabonne Strategic Alliance of Councils (WBC)

Wellington, Blayney and Cabonne Councils are three adjacent rural councils nestled behind the Great Dividing Range in the central west of NSW. Atypical for the fact that no one council dominates the others in terms of size, population or budget, the three local government areas have a combined population of 30,000 inhabitants and cover an area of
approximately 12,000 square kilometres. The councils have a combined budget of approximately $80 million and just over 400 employees (WBC, 2007, 5).

The three Central Western NSW councils were spurred into action with the threat of compulsory amalgamation in 2003. After negotiations with the NSW Department of Local Government, the WBC Alliance was formally established on 28 August 2003, with the signing of a Deed of Agreement (WBC, 2003a) and the ratification of a four-page Constitution (WBC, 2003b), with the stated aims of exploiting potential economies of scale through joint service provision; increasing the range and quality of services available to residents; reducing the cost of these services to ratepayers; and retaining and even expanding job opportunities for the residents of the WBC Alliance area.

The WBC Alliance Board is comprised of two councillors from each member council (inclusive of the Mayors), alongside the General Managers of each council, all of whom have equal voting rights. The Board is chaired by one of the three Mayors with the Chair rotating on a 12 monthly basis and the Secretariat assigned to the Chair’s council. Bi-monthly meetings are normally held, but can be more frequent if required. The Constitution provides that the Board ‘may at any time resolve to admit other Councils to the Strategic Alliance (which it did in fact do, with Central Tablelands Water joining in 2005) and that the Agreement can be terminated by any of the parties, but with six months written notice.

The Board was originally served by three teams of specialised staff from the three member councils: finance and corporate services; engineering and technical services; and environmental services. Each council provided a team leader for one of the professional teams. Moreover, every professional team leader was answerable to the General Manager currently providing secretarial services to the Board. In addition, ‘Centres of Excellence’ provided specific services to each member council. These Centres consisted of staff drawn from across the three councils, using their collective expertise to deliver outcomes of a higher standard than otherwise possible. While this structure has been developed over the past eight years, it is important to note that the Alliance was designed so that member
councils retained their own staff, ownership of assets and existing democratic representation and that control over these and other elements is exercised by member councils.

In terms of the Dollery and Johnson (2005b) taxonomy outlined in Chapter 3, the WBC Alliance is a hybrid structure. This is because member councils of the WBC Alliance retain their existing political autonomy, elected representation and boundaries, but form a joint management board. This arrangement resembles a joint board model. However, despite the fact that the Board is supported by three specialist finance, engineering and environmental teams, drawn from the three member councils, each council maintains its own separate operational organisation and staff. In this sense, the WBC Alliance model most closely mirrors the ROC model.

- In 2005, Dollery and Ramsland (the latter then General Manager at Wellington Shire Council) undertook an evaluation of the WBC Alliance. They found that:

  - The Centres for Excellence had been effective: They had generated better services for the member councils, created opportunities for increased revenue by providing services to other councils, maintained and increased the employment of specialist staff in the Alliance councils and had overseen an expansion of the aggregate resident population in the WBC Alliance area.

  - The Alliance had successfully pursued resource sharing arrangements in the areas of record-keeping (moving all records to one facility, saving $250,000), development applications and facilitating staff secondment within the council members of the Alliance.

  - By 2005 joint purchases (four tractors, three tip trucks, two graders and two rollers) had saved the councils an additional $90,000.

  - Joint training in OH&S alone had resulted in $50,000 in savings.
• In the first 12 months of operations the Alliance had saved member councils approximately $1 million.

Dollery and Ramsland (2005, 4-5) also made several broader observations:

• The Alliance had shielded the member Councils from compulsory amalgamation.

• It has given them better political bargaining power and increased the skills development of the staff and focussed attention on ‘triple bottom line’ outcomes with the employment of the three specialised teams across the Alliance.

• It had resulted in more cost-effective service delivery while maintaining individual councils as strong economic forces within their local communities.

• It had preserved local representative democratic arrangements and as such comprised an exemplary arrangement that other groups of councils could seek to emulate.

• With hindsight, the Alliance would have been better served had the constituent councils acted sooner, sought upfront seed funding from the state government and incorporated a greater ‘tree change’ element in the planning of the Alliance (Dollery and Ramsland, 2005, p. 5).

Since 2005, the WBC Strategic Alliance has both evolved and strengthened. Several features of this evolution and strengthening are noteworthy. In addition to the incorporation of the Central Tablelands Water Authority into the Alliance, the goals of the organisation have broadened:
• To reduce cost to member Councils by aggregating the demand for goods and services by joint procurement.

• To reduce cost to member Councils by sharing knowledge, skills and methods. To increase services to member Councils by accessing larger amounts of grant funds on a sub-regional basis.

• To facilitate staff development and retention by offering opportunities for staff across member Councils.

• To increase employment opportunities within member Councils by supporting apprenticeships and traineeships with the WBC members.

• To demonstrate tangible benefits of the Alliance. To increase community benefit through lobbying and advocacy (WBC, 2011a).

Of note is the renewed emphasis on procurement, the renewed emphasis on staff skills and employment generally, upon lobbying and advocacy, and upon the demonstration of tangible benefits to the community and more broadly.

These benefits are documented in the WBC Annual Reports. The Annual Reports provide general descriptions of activities of the Alliance, such as where savings have been achieved, where grant monies have been obtained, staff development updates and a summary of savings achieved over several consecutive years. An illustrative example of these activities and savings from the 2007/08 Annual Report is reported in Table 5.1.
Table 5.1: WBC records benefit analysis – quantifiable

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**NOTE:**
Other – Refers to items reported by Wellington Council as Secretariat in the Annual Report for 2004/05. For further details please contact Wellington Council.
Costs are estimates only – full costs analysis records are available from the secretariat.

**Source:** WBC (2008, 14).

**Note:** Figures for F/Y 2007/08 have been used in this context as the details of savings for F/Y 2009/10 are so detailed as to yield them unwieldy in this context, but see: WBA, 2010, 10-11).

By 2009/10, accumulated savings achieved by the WBC Alliance were in excess of $3 million across a broad range of activities (WBC, 2010, p. 9).

Significant changes were also made to the structure and personnel of the Alliance. In June 2008, a Project Officer was appointed, acting as a link between the three specialist committees (finance, engineering, and environment), the Board and the wider community.
By 2010, it was estimated that after taking into account the total costs associated with this position, a net saving of $663,344 was achieved for F/Y 2009/10 alone (with the Project Officer consistently portrayed in all Alliance documents as being vital to the success of the organisation).

The WBC Alliance has won several awards. These have included the National Award for Management Excellence in relation to Service Delivery through Collaboration. The WBC was also selected as ‘Highly Commended’ in the 2009 Local Government Managers’ Association (NSW) Excellence Awards (WBC, 2010, p.13). Commenting upon the reasons for the success of the Alliance in the 2009/10 Annual Report, Graeme Fleming, a foundation member of the Alliance, emphasised the commitment to staff training and the ‘commitment and enthusiasm of Councillors and staff from the four councils’ (WBC, 2010, p. 3).

5.4.2 Failure: New England Strategic Alliance of Councils (NESAC)

The New England Strategic Alliance of Councils (NESAC) was in operation from 2004 to 2009. The Armidale-Dumaresq Council and the Shire Councils of Guyra, Uralla and Walcha are four adjacent local authorities located in the New England region of northern New South Wales. Despite their spatial proximity, the Armidale-Dumaresq Council differs considerably from the other local government bodies. For example, with a population of approximately 25,000, Armidale-Dumaresq dwarfs the other three areas, all of which have fewer than 6,000 residents. Furthermore, given that the University of New England is located in Armidale, the Armidale-Dumaresq Shire population is considerably more urbanised and mobile. By contrast, Guyra, Uralla and Walcha Shire Councils have a great deal in common from a demographic perspective, especially a comparatively low rate of urbanisation.

A similar picture emerges from the economic data. For example, the estimated value of all buildings in Armidale-Dumaresq exceeds that of the other councils combined, and Armidale-Dumaresq has more new businesses open and more new vehicles purchased than the aggregate total of Guyra, Uralla and Walcha. In essence, Armidale-Dumaresq
dominates Guyra, Uralla and Walcha in demographic and economic terms. By contrast, Guyra, Uralla and Walcha are predominantly rural shires dependent on farming, which have experienced static demographic and economic trends in recent years (Conway, Dollery and Grant, 2011, p.210-212).

Following the NSW state elections in 2003, a NSW government initiated report called for a ‘merger of the whole of the Armidale-Dumaresq Council, the whole of the Uralla Council [and] a major portion of each of the Guyra and Walcha Shires’. Under the plan, a new entity entitled the New England Regional Council, centred in Armidale, would replace existing councils under an entirely new system of representation.

The threat of radical structural reform acted as a catalyst and the Mayors of Walcha, Uralla, Guyra and Armidale Dumaresq councils met with the Minister for Local Government to propose a Strategic Alliance model based around the promise of achieving $1.7 million in annual savings in the short term and even more over the medium to long term across the four councils. The NSW Minister for local Government indicated that he was prepared to consider alternative options to compulsory amalgamation and gave the councils time to formulate a Strategic Alliance model.

Dollery, Burns and Johnson (2005) provided an account of the development of the New England Strategic Alliance of Councils (NESAC):

- Dollery, Burns and Johnson (2005, p.9) argued that a ‘key objective’ of NESAC was to preserve local representation while at the same time ‘providing a vehicle for the efficacious reform of the councils in question’ based upon the requirement to achieve ‘efficiency and effectiveness through the development of objective local government performance measurement and management systems’.

- The task of the councils was to construct a business model which could demonstrate savings to the State Government. Dollery, Burns and Johnson
(2005, p.9) stated that the techniques used included: ‘Business process reviews, benchmarking and continuous improvement programs underpinned by an enabling information technology and connectivity platform and shared service arrangements over nineteen activity operational areas’. The four General Managers under the Strategic Alliance model were each assigned portfolio areas of responsibility that incorporated a number of shared services areas, and ‘were assigned with the task of leading the development of the business cases and facilitating the necessary planning for the new operational structure and delivery of the shared services’. In particular, business cases were built for plant utilisation, risk management, banking and investments and a geographical information system (GIS).

- In terms of projected outcomes, planning for the NESAC model estimated that $1.7 million in recurrent savings could be achieved in the short term and $3.2 million could be realised in the longer term from a [then] combined budget of approximately $50 million. NESAC identified four areas of operation where savings could be expeditiously produced, or what they referred to as ‘quick wins’. In terms of Plant Utilisation, an extensive analysis of operations was undertaken, looking at utilisation rates, age of plant, replacement programs, future works programs, and hiring arrangements. The councils developed a business case that $905,000 in one-off capital returns was possible in plant rationalisation with a further $226,000 in potential savings in recurrent expenditure, derived from cooperation between the councils based upon rationalisation, greater use of existing plant and in particular inter-council hiring instead of using private sector companies. In terms of investments, the councils brokered a joint agreement to pool investments, estimated to result in an additional $100,000 of investment income per annum. Risk management was also targeted under the ‘quick wins’ strategy, with premium savings derived from pooling insurance (workers compensation, public liability, property, and occupational health and
safety expenses) estimated at $133,000. Sharing a common GIS system was also estimated to yield $68,000.

- The Councils also examined reducing duplication across the four administrations. It was estimated that sharing IT, finance, human resources, payroll, records, supplies, stores, plant and GIS could render approximately 10 positions redundant – equivalent to 2.3 per cent of total employment – which could nevertheless be redeployed into high value-added areas, ‘realising around $800,000 in additional savings [and] over the longer term, 18 positions were believed initially achievable yielding $1,450,000 in savings (Dollery, Burns and Johnson, 2005, p.11). Total savings were estimated at approximately ‘two per cent of the combined value of labour and contracts /materials, amounting to $453,000 in recurrent savings in the short term’. Further, the analysis suggested that five per cent savings would yield approximately $1,135,000 (Dollery, Burns and Johnson, 2005, p.11). Furthermore, $160,000 in savings was identified from ‘streamlining council planning operations, including developing a single Local Environment Plan and combining funding applications to state government.

- The move toward greater shared services would place strain on existing employment relations. The councils thus developed a joint training and review program inclusive of a renewed reward structure for all council employees based upon performance evaluation (Dollery, Burns and Johnson, 2005, 11).

A ‘NESAC Shared Service Charter’ was agreed upon. The NESAC Charter objectives were:

- To implement a successful alternative model for Local Government Reform based on efficiency, performance and continued local autonomy

- To identify one-off savings of $1.3 million and then moving gradually to annual savings of at least $1.7 million over fourteen functional areas
To implement a performance management system to measure increased service levels, and new service provision and use savings and benefits to meet asset sustainability obligations (IKEN, 2011).

The Charter also specified the role of the Advisory Committee, consisting of the Mayor, Deputy Mayor and General Manager of each council, and the Chairperson and General Manager of the New England Weeds Authority (NEWA). However, NESAC was not established as a legal entity but rather as a non-binding shared services charter between the four member councils and the NEWA (which was non-voting member) (DLG [NSW], 2009). It appeared that if the four local governments, aligned with the NEWA, could organise themselves to stave off compulsory amalgamation; the stage was set for a long-term and financially viable Strategic Alliance.

This was not to be the case. The dissolution of NESAC commenced in early 2009 when the Walcha Shire Council and Uralla Shire Council announced that they would not be renewing their membership of NESAC, and the organisation gradually dissolved further. In their analysis of the withdrawal of Walcha from NESAC, Conway, Dollery and Grant (2011, p.214) observed that: ‘For almost all of its comparatively short life, NESAC ... generated a high degree of controversy in the New England region’. In order to probe deeper into the reasons for these events, and within five weeks of the announcement by the Walcha Shire Council, Conway, Dollery and Grant (2011) undertook extended interviews with 10 Mayors and General Managers from the four councils.

Analysis of the qualitative data from this research revealed three broad reasons as to why NESAC collapsed:

- Interviewees were quick to identify the state government as the actor that precipitated the action of Walcha Shire Council. Just as the NSW Department of Local Government (and the Boundaries Commission, in particular) was potentially forcing amalgamation into a New England Regional Council, so too was it perceived as the arbitrary force behind NESAC and that the offer of
an alliance had only been forthcoming due to the precarious situation in Macquarie Street, where a minority Labor Government held power with the support of the Independent Member for Northern Tablelands. Interviewees regarded the operational structure of NESAC as problematic. The Alliance was governed by monthly meetings of the General Managers and one elected member from each council (the Mayor or Deputy Mayor) as voting members and the General Manager and Chair of the New England Weeds Authority as non-voting members. However, the fact that all decisions had to be unanimous stymied action by the group to the extent that it was regarded by many respondents as powerless.

• There was also a perception by many respondents of a lack of commitment to NESAC as a governing group or what Conway, Dollery and Grant (2011, p.218) described as a lack of both ‘goodwill trust’ and ‘competence trust’ between participants as well as a lack of ambition for change. Further, participants from the smaller councils exhibited a marked scepticism toward the political stability of Armidale-Dumaresq Council and its negative attitude toward the Alliance.

• The majority of interviewees expressed concern over operational elements of the Strategic Alliance. Many interviewees also thought that operationally NESAC had taken on too much too quickly and that this change was not being managed well, and that the new arrangement was not efficient. A perception against the largest council in the Alliance was recorded: ‘For the smaller councils, there [was] a common concern that they [were] ‘bearing the burden of the costs of a larger council’, ‘paying for bells and whistles that we don’t need’ (Conway, Dollery and Grant, 2011, p.219).

Conway, Dollery and Grant (2011, p.220) offered some more general observations:
• NESAC was not formed as a positive, governing arrangement; rather, it was put in place to stave off compulsory amalgamation. Once this goal was achieved, the major rationale for the Alliance was no longer present.
• The Alliance may have remained more viable if it had been built on the concept of a ‘binding alliance’; that is, one where members cannot simply exit after the initial agreement.

5.5 CONCLUDING REMARKS

Chapter 5 has considered a series of case studies on structural change in Australian local government, which has deliberately avoided Tasmanian examples. Three types of structural change have been included: forced amalgamation, boundary change and shared services. The first and last categories contained two cases studies; a success and a failure. The boundary change mode of structural change only included a single successful example since it was the only case examined in the scholarly literature.

These case studies offer valuable insight into the causes of success and failure. A common theme evident in successful cases was that the local authorities involved acted voluntarily and actively sought to make the new arrangements work well. However, a caveat must be added that lessons learned must be seen through the prism of the specific circumstances confronting of the councils in question.
CHAPTER 6: CRITIQUE OF THE MUNRO REPORT

6.1 INTRODUCTION


Recommendation 1 of the Munro Report called for the creation of a Greater Hobart Council (i.e. option 3 in *Towards Improved Local Government in Southern Tasmania*). More specifically, Recommendation 1 stated that ‘the present cities of Hobart, Glenorchy and urban Clarence (with Richmond and surrounds moving into the Sorell Council area), the urban part of Kingborough excluding the Channel and Bruny Island (which would be incorporated into Huon Valley) be merged with Brighton to form a single council, to be named the City of Greater Hobart’. In addition, it proposed that ‘wards be introduced at least for the first term of the Greater Hobart Council’ and that ‘the STCA should call a meeting of two representatives of each council in metropolitan Hobart to discuss the core recommendations of this report and the transition towards a Greater Hobart Council’.

Given the radical import of the Munro Report, not only for Southern Tasmania councils, but also in its implications for local government in the rest of the state, it is important to evaluate the recommendations of the Munro Report, as well as its underlying reasoning. This forms the aim of Chapter 6. It is argued that the Panel was gravely mistaken in its analysis of the four models of local government outlined in *Towards Improved Local Government in Southern Tasmania* because it did not consider the substantial literature on structural reform in local government,
including empirical evidence on economies of scale in local government and empirical evidence on the observed outcomes of local government amalgamation. In particular, the Panel appeared unaware that (a) council mergers seldom generated cost savings and mostly induced higher cost structures (b) scale and scope economies exist in only some local government functions and (c) most of the possible gains attendant upon council size can be achieved through shared services and other forms of inter-council collaboration. It is concluded that the Munro Report is deeply flawed and there is no conceptual or empirical case for compulsory amalgamation aimed at the establishment of a Greater Hobart Council. However, a need does exist for a metropolitan body, such as the STCA, empowered to act in a metropolitan-wide role in the Greater Hobart area in advocacy, coordination, planning, and other functions.

Chapter 6 is divided into four main parts. Section 6.2 provides a synoptic description of the Munro Report. Section 6.3 places the Brighton Council in the comparative context of (a) all Tasmanian local councils and (b) local councils in the proposed new Greater Hobart Council and demonstrates that the Brighton Council is the best performed not only in the Greater Hobart council area, but also in all Tasmania. Section 6.4 evaluates the ‘Case for Change’ set out in Chapter 6 of the Munro Report. Chapter 6 ends in Section 6.5 with some brief concluding comments.

6.2 OUTLINE OF THE MUNRO REPORT

In *Towards Improved Local Government in Southern Tasmania*, the Munro Report set out the objectives of its Review, which centred on the need ‘to improve local government in Southern Tasmania’. In particular, its deliberations concentrated on seven objectives: To achieve a ‘more resilient and productive Tasmanian economy’; to advance ‘advocacy and representation of the Region’; to secure a ‘simple and clear system of governance’; to ‘enhance efficiency’; to eradicate ‘duplication’; to ‘save money’; and to improve ‘community engagement’. However, in the Final Report (2011, p. 7) these objectives had coalesced into only two main aims:

- To ‘maximise the financial sustainability of the Southern Tasmanian local government sector to support continued provision of services to its
communities over the long term by promoting more effective service delivery and increasing collaboration within the sector’.

- To ‘develop viable, sustainable models for future local government reform in Australian jurisdictions’.

The Discussion Paper Towards Improved Local Government in Southern Tasmania contended that significant improvement could be achieved in five main areas:

- ‘Opportunities to strengthen the governance processes of councils and to provide stronger advocacy for Hobart and the Region’.

- Improvements in the efficiency and effectiveness of council service delivery.

- ‘Opportunities to better engage citizens in the processes of local government and to enable the expression of local identity in the many parts of the Region’.

- ‘Techniques for developing more integrated and streamlined customer service across the spheres of government’.

- The ‘potential for regional structures to contribute to the objectives set for this Review’.

The four policy options advanced in Towards Improved Local Government in Southern Tasmania were defined in the following terms:

- **Option 1**: ‘Maintaining the status quo in relation to the number of local governments and their current boundaries, but seeking to improve performance through a concentration on the formation of stronger regional bodies and shared services’.
• **Option 2**: ‘Forming a single local council for the whole of the region’.

• **Option 3**: ‘Amalgamating all metropolitan councils into a single Greater Hobart Council, while leaving the rural councils largely untouched’.

• **Option 4**: The creation of Eastern Shore and Western Shore Councils’ in Hobart, as well as merging ‘rural councils into three new local government areas’.

By way of consultation, *Towards Improved Local Government in Southern Tasmania* was published, the four options advertised in *The Mercury*, and 260 submissions were made to the Panel. The Munro Report (2011, p. 16) summarized the tone of submissions as follows:

> Very few submissions (just 24 or 9.4%) expressed a preference for the maintenance of the status quo, or for the first option outlined in the options paper. Ten, or 9.7%, of submissions known to have been urban, and six, or 12%, of rural submissions preferred the status quo. 67.5% (173 by number) of submissions indicated a preference for either a single regional council (option 2), or for the Greater Hobart option (option 3), with many preferring to see some attempt at rural amalgamations as identified in option 4 as well. 73, or 70.9%, of submissions known to have been from urban areas expressed such preferences, compared with 29 or 58% of submissions from known rural areas preferring these options.

In October 2011, the Final Report *Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania* was published. It *inter alia* analysed the four structural reform options and advanced thirteen recommendations, largely concerning a Greater Hobart option (option 3). In its appraisal of the four options, the Panel considered both their strengths and weaknesses, along the lines described below.

**Option 1**: The Munro Report discarded Option 1 (i.e. *status quo* with more emphasis on shared services and stronger regional bodies) on four main counts:
• For the STCA councils the ‘real opportunities’ consisted in ‘stronger integrated governance and strategic planning, which require much more than just a cooperative framework between councils’.

• ‘Long term and sustainable models of service provision are unlikely to be possible, especially for more complex and politically sensitive areas, through agreements across councils’.

• ‘Cooperative arrangements across council boundaries inevitably require the establishment of administrative arrangements that develop their own bureaucracies that are not directly accountable to the community, which is not a principle of strong long term democratic accountability’.

• While the Munro Report accepted that ‘resource sharing that operates on a contractual basis can be effective (that is, where a council is able to piggy back off existing contracts, or staffing resources, in other councils)’, and it expected ‘rural councils being able to do this with urban councils in particular, but only if it is financially advantageous to do so’, the Munro Report argued that ‘for such arrangements, which would oblige larger urban councils to support rural councils through their resources and contracts, to be effective, they need to be mandated’.

It cannot be stressed too strongly that these assertions were made without any reference whatsoever to relevant empirical and conceptual evidence.

Option 2: The Munro Report also discarded Option 2 (i.e. a single Southern Tasmania regional council merging all STCA councils) on four principal grounds:

• An amalgamated entity embracing all STCA councils would ‘combine council areas with little real community of interest’ and would therefore be
‘inappropriate’. Moreover, given ‘effective amalgamations can only proceed on a “like with like” basis that distinguishes between urban and rural areas’, it would be ‘unlikely to succeed’.

- A single merged super council was not politically practicable since ‘such a council would be of a size in the context of Tasmania that would rival the State Government’ and therefore ‘would be unlikely to be considered appropriate by Parliament’.

- Difficulties derived from ‘communication and travel in rural areas for such a council would be significant’ and this would substantially increase the ‘costs of governance’.

- The less ‘radical’ Option 3 would deliver the same benefits as Option 2.

It must be reiterated that again the Munro Report provided neither empirical nor conceptual evidence to buttress these assertions.

**Option 4:** The Munro Report rejected Option 4 (i.e. ‘eastern and western shores and rural mergers’). It argued against the establishment of separate Eastern Shore and Western Shore local authorities on three counts:

- ‘A merger between Clarence and Brighton on the eastern shore and Hobart, Glenorchy and Kingborough on the western shore, would not achieve a great deal in terms of financial benefits for the disruption involved’.

- It would perversely rule out the ‘many benefits’ which would flow from Option 3.
• ‘Little public support’ existed for separate Eastern Shore and Western Shore councils.

Once again, no supporting evidence was provided for these assertions in the Munro Report.

**Option 3**: The Munro Report endorsed Option 3 (i.e. a Greater Hobart Council and no change in the adjacent rural areas) on four grounds:

1. A metropolitan Hobart council would be more effective than its constituent councils in its advocating for the region with the state government and Commonwealth government.

2. Enhanced ‘strategic planning and integration of projects and services across the metropolitan area’ would flow from the new amalgamated council.

3. A Greater Hobart Council would generate ‘greater potential to achieve the very best professional and political representation to service the needs of Hobart’;

4. A Greater Hobart Council would yield substantial ‘cost and efficiency gains’ as a consequence of a ‘more professional council administration and an increase in the skills of local politicians’.

Chapter 6 of the Munro Report set out the case in favour of a Greater Hobart Council. We will evaluate the veracity of these arguments in section 6.4.

In addition to its endorsement of a Greater Hobart Council (Option 3), the Munro Report advanced thirteen recommendations:
• **Recommendation 1**: Greater Hobart proposed that ‘the present cities of Hobart, Glenorchy and urban Clarence (with Richmond and surrounds moving into the Sorell Council area), the urban part Kingborough excluding the Channel and Bruny Island (which would be incorporated into Huon Valley) be merged with Brighton to form a single council, to be named the City of Greater Hobart’. Moreover, it proposed that ‘wards be introduced at least for the first term of the Greater Hobart Council’ and that ‘the STCA should call a meeting of two representatives of each council in metropolitan Hobart to discuss the core recommendations of this report and the transition towards a Greater Hobart Council’.

• **Recommendation 2**: City of Greater Hobart Act proposed that ‘a City of Greater Hobart Act be developed that recognises the city as a capital city, identifies the powers of the mayor and council, and the obligations the city has to support rural councils through its resources and contracts’.

• **Recommendation 3**: Non-metropolitan councils proposed that ‘apart from consequential boundary adjustments as a result of the formation of a Greater Hobart Council, no further boundary adjustments or amalgamations are promoted in the nonmetropolitan area at this stage, but that a review of the special needs of these councils and appropriate reform options be undertaken’. It further determined that the distribution of Financial Assistance Grants (FAGs) within the region be reconsidered ‘to assist these councils towards long-term reform and greater sustainability’, a recommendation linked to recommendation 12.

• **Recommendation 4**: Timing of amalgamations and boundary changes proposed that ‘the structural changes proposed in this report are implemented as from the commencement of the new council terms following the next local
government elections in October 2013, with those elections to be based on the newly structured councils’.

- **Recommendation 5**: Transition committee proposed that ‘a transition committee, comprising two councillors from each of Brighton, Clarence, Glenorchy, Hobart and Kingborough Councils, be established to oversee the transition to the new Greater Hobart Council’.

- **Recommendation 6**: Committee for Hobart proposed that ‘a Committee for Hobart be established from the business, environment, social, arts, [and] tourism sectors to build a vision for the Greater Hobart area’.

- **Recommendation 7**: Three year reform program proposed that ‘Southern Tasmanian councils work with the State Government on implementing a three-year reform program’. The reform program would include reform in the following areas: governance, community and customer engagement, planning, asset management and capital works, strategic procurement and service delivery.

- **Recommendation 8**: Financial management and sustainability proposed that ‘a review of the distribution of Financial Assistance Grants and roads funding be undertaken in the light of the special needs of non-metropolitan councils’. Moreover, it also proposed ‘that a review of financial management policies of Southern Tasmanian councils be undertaken with a view to appropriate financial management principles and practices being adopted’.
• **Recommendation 9**: Period of office for mayors and councillors proposed that ‘the Local Government Act be changed to provide for the popular election of mayors for a four year term, for full council elections every four years, and a removal of the requirement for mayors to have previously served in local government’.

• **Recommendation 10**: Compulsory voting proposed that ‘the State Government introduce compulsory voting for local government elections’.

• **Recommendation 11**: Local government skills proposed that ‘the STCA develop a skills development strategy for staff and elected members of Southern Tasmanian councils’.

• **Recommendation 12**: Community engagement proposed that ‘the STCA take steps to introduce a training program for elected officials and council staff in community engagement strategies as a basis for continued improvement in this regard in the newly structured councils’.

• **Recommendation 13**: STCA responsibilities proposed that ‘the STCA take on the responsibility for formulating and coordinating strategies for the region as a whole, that focus on the Greater Hobart and rural hinterland relationships in areas such as economic development, tourism, niche production and marketing’.

Although some of the Recommendations of the Munro Report relate directly and exclusively to the Southern Tasmania local authorities in the greater Hobart area, others have a state-wide significance for other groups of councils, such as the NTD group. For example, at least three recommendations seek Tasmanian government intervention which would have state-wide
ramifications. For instance, Recommendation 8 ‘Financial management and sustainability’ seeks a review of Financial Assistance Grants and roads funding. In an analogous manner, Recommendation 9 ‘Period of office for mayors and councillors’ proposes revision of the Local Government Act in order to enable the direct election of mayors for four year terms, the establishment of full council elections every four years, and no requirement for mayors to have formerly served in local government. Similarly, Recommendation 10 ‘Compulsory voting’ seeks compulsory voting in local government elections.

By contrast, other Munro Report recommendations consist largely of ‘motherhood’ sentiments which have general bearing on local government systems everywhere and no specific significance for Southern Tasmania local government, regardless of structural reform. For instance, Recommendation 11 ‘Local government skills’ calls for a ‘skills development strategy for staff and elected members’, a common refrain in local government systems across the world. Similarly, Recommendation 12 ‘Community engagement’ seeks ‘a training program for elected officials and council staff in community engagement strategies’, a widespread strategy in many jurisdictions.

In sum, just seven of the thirteen recommendations (Recommendations 1, 2, 3, 4, 5, 6 and 13) are directly or indirectly related to structural reform in Southern Tasmania. Of the seven, two are only marginally related to structural reform and in any event could be applied independently of structural reform. For instance, Recommendation 6 ‘Committee for Hobart’ has no bearing on structural reform whatsoever. In a similar vein, Recommendation 13 (‘STCA responsibilities’) focuses on planning and coordination in the Greater Hobart area and its adjacent hinterland.

6.3 CHARACTERISTICS OF SOUTHERN TASMANIA COUNCILS IN CONTEXT

In order to appreciate the ‘fact-free’ and misleading manner in which the Munro Report conducted its analysis, it is worthwhile considering the empirical characteristics of Southern Tasmania local authorities in the broader context of Tasmanian local government as a whole.
### 3.1 Population, land area, population density and road length

Table 6.1 provides information on Tasmanian council characteristics.

**Table 6.1: Overview of Tasmanian Council Characteristics, 2009/10**

<table>
<thead>
<tr>
<th>City/ Municipality</th>
<th>Council</th>
<th>Population</th>
<th>Land Area (sq-km)</th>
<th>Pop. Density (pers./sq-km)</th>
<th>Road Length (km)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Northern</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipality</td>
<td>Break O'Day</td>
<td>6,514</td>
<td>3,521</td>
<td>1.85</td>
<td>548</td>
</tr>
<tr>
<td>Municipality</td>
<td>Dorset</td>
<td>7,355</td>
<td>3,223</td>
<td>2.28</td>
<td>739</td>
</tr>
<tr>
<td>Municipality</td>
<td>Flinders</td>
<td>900</td>
<td>1,994</td>
<td>0.45</td>
<td>385</td>
</tr>
<tr>
<td>Municipality</td>
<td>George Town</td>
<td>6,892</td>
<td>653</td>
<td>10.55</td>
<td>273</td>
</tr>
<tr>
<td>City</td>
<td>Launceston</td>
<td>65,826</td>
<td>1,411</td>
<td>46.65</td>
<td>738</td>
</tr>
<tr>
<td>Municipality</td>
<td>Meander Valley</td>
<td>19,694</td>
<td>3,320</td>
<td>5.93</td>
<td>849</td>
</tr>
<tr>
<td>Municipality</td>
<td>Northern Midlands</td>
<td>12,654</td>
<td>5,126</td>
<td>2.47</td>
<td>975</td>
</tr>
<tr>
<td>Municipality</td>
<td>West Tamar</td>
<td>22,476</td>
<td>690</td>
<td>32.57</td>
<td>456</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>142,311</td>
<td>19,938</td>
<td>7.14</td>
<td>4,963</td>
</tr>
<tr>
<td><strong>North West</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City</td>
<td>Burnie</td>
<td>19,892</td>
<td>610</td>
<td>32.61</td>
<td>346</td>
</tr>
<tr>
<td>Municipality</td>
<td>Central Coast</td>
<td>21,747</td>
<td>931</td>
<td>23.36</td>
<td>664</td>
</tr>
<tr>
<td>Municipality</td>
<td>Circular Head</td>
<td>8,263</td>
<td>4,891</td>
<td>1.69</td>
<td>769</td>
</tr>
<tr>
<td>City</td>
<td>Devonport</td>
<td>25,551</td>
<td>111</td>
<td>230.19</td>
<td>269</td>
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<tr>
<td>Municipality</td>
<td>Kentish</td>
<td>6,286</td>
<td>1,155</td>
<td>5.44</td>
<td>452</td>
</tr>
<tr>
<td>Municipality</td>
<td>King Island</td>
<td>1,683</td>
<td>1,094</td>
<td>1.54</td>
<td>436</td>
</tr>
<tr>
<td>Municipality</td>
<td>Latrobe</td>
<td>10,020</td>
<td>600</td>
<td>16.70</td>
<td>287</td>
</tr>
<tr>
<td>Municipality</td>
<td>Waratah-Wynyard</td>
<td>14,096</td>
<td>3,526</td>
<td>4.00</td>
<td>535</td>
</tr>
<tr>
<td>Municipality</td>
<td>West Coast</td>
<td>5,251</td>
<td>9,575</td>
<td>0.55</td>
<td>195</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>112,789</td>
<td>22,493</td>
<td>5.01</td>
<td>3,953</td>
</tr>
<tr>
<td><strong>Southern</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipality</td>
<td>Brighton</td>
<td>16,358</td>
<td>171</td>
<td>95.66</td>
<td>171</td>
</tr>
<tr>
<td>Municipality</td>
<td>Central Highlands</td>
<td>2,322</td>
<td>7,976</td>
<td>0.29</td>
<td>752</td>
</tr>
<tr>
<td>City</td>
<td>Clarence</td>
<td>52,935</td>
<td>377</td>
<td>140.41</td>
<td>460</td>
</tr>
<tr>
<td>Municipality</td>
<td>Derwent Valley</td>
<td>10,118</td>
<td>4,104</td>
<td>2.47</td>
<td>330</td>
</tr>
<tr>
<td>Municipality</td>
<td>Glamorgan Spring Bay</td>
<td>4,507</td>
<td>2,522</td>
<td>1.79</td>
<td>353</td>
</tr>
<tr>
<td>City</td>
<td>Glenorchy</td>
<td>44,716</td>
<td>120</td>
<td>372.63</td>
<td>310</td>
</tr>
<tr>
<td>City</td>
<td>Hobart</td>
<td>50,078</td>
<td>78</td>
<td>642.03</td>
<td>325</td>
</tr>
<tr>
<td>Municipality</td>
<td>Huon Valley</td>
<td>15,372</td>
<td>5,498</td>
<td>2.80</td>
<td>706</td>
</tr>
<tr>
<td>Municipality</td>
<td>Kingborough</td>
<td>34,171</td>
<td>719</td>
<td>47.53</td>
<td>537</td>
</tr>
<tr>
<td>Municipality</td>
<td>Sorell</td>
<td>13,407</td>
<td>583</td>
<td>23.00</td>
<td>404</td>
</tr>
<tr>
<td>Municipality</td>
<td>Southern Midlands</td>
<td>6,146</td>
<td>2,611</td>
<td>2.35</td>
<td>803</td>
</tr>
<tr>
<td>Municipality</td>
<td>Tasman</td>
<td>2,413</td>
<td>659</td>
<td>3.66</td>
<td>257</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>252,543</td>
<td>25,418</td>
<td>10</td>
<td>5,408</td>
</tr>
</tbody>
</table>

**Source:** Australian Bureau of Statistics (ABS) Regional Population Growth, Cat. No. 32180.0: Tasmanian State Grants Commission Annual Report for 2011-12
In terms of population, Southern Tasmania constitutes 49.75 per cent of Tasmania’s total population. Regarding land area, the Southern region forms 37 per cent of Tasmania’s total land area. By contrast, the North West and Northern regions represent 33 per cent and 29 per cent of Tasmania’s land area respectively. In terms of population density (i.e. population per square kilometre), the Southern region has a population density of 10 persons per square kilometre, the North West region has a population density of 5 persons per square kilometre, and the Northern region has a population density of 7 persons per square kilometre. The Southern region, which comprises 37 per cent of Tasmania’s total land area, accounts for 38 per cent of the total Tasmania road length in kilometres.

6.3.2 Tasmanian Council Income

Table 6.2 provides information on municipalities in terms of rates income, total income, rates per capita, and rates as a percentage of total income. Table 6.2 shows that (on average) 51 per cent of total income for all Tasmania councils derives from local rates ($671 per capita). In Southern Tasmania, local rates account for an average of 50 per cent of total income ($677 per capita). At one extreme, South Midlands gets 38.3 per cent of its total income from rates ($557 per capita), and at the other extreme, Tasman Council secures 59 per cent of its total income from rates ($1,387 per capita). Hobart City Council has higher rates per capita than the other Hobart city councils, high operating expenses per capita and a high concentration of commercial property. In contrast, Brighton Council has the lowest rates per capita. In the Northern region, local rates constitute on average 54 per cent of total income ($647 per capita), and in the North West region, on average local authorities receive 49 per cent of total income from rates ($690 per capita).
Table 6.2: Local government areas by population, rates and total incomes, 2009/10

<table>
<thead>
<tr>
<th>Council</th>
<th>Population</th>
<th>Rates Income $000's</th>
<th>Total Income $000's</th>
<th>Rates income per capita $</th>
<th>Rates income as a % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Northern</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Break O'Day</td>
<td>6,514</td>
<td>5,862</td>
<td>10,030</td>
<td>900</td>
<td>58.4%</td>
</tr>
<tr>
<td>Dorset</td>
<td>7,355</td>
<td>5,365</td>
<td>11,826</td>
<td>729</td>
<td>45.4%</td>
</tr>
<tr>
<td>Flinders</td>
<td>900</td>
<td>1,041</td>
<td>3,846</td>
<td>1,157</td>
<td>27.1%</td>
</tr>
<tr>
<td>George Town</td>
<td>6,892</td>
<td>5,681</td>
<td>9,783</td>
<td>824</td>
<td>58.1%</td>
</tr>
<tr>
<td>Launceston</td>
<td>65,826</td>
<td>47,012</td>
<td>77,634</td>
<td>714</td>
<td>60.6%</td>
</tr>
<tr>
<td>Meander Valley</td>
<td>19,694</td>
<td>8,779</td>
<td>17,666</td>
<td>446</td>
<td>49.7%</td>
</tr>
<tr>
<td>Northern Midlands</td>
<td>12,654</td>
<td>6,614</td>
<td>14,880</td>
<td>523</td>
<td>44.5%</td>
</tr>
<tr>
<td>West Tamar</td>
<td>22,476</td>
<td>11,680</td>
<td>23,892</td>
<td>520</td>
<td>48.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>142,311</td>
<td>92,034</td>
<td>169,557</td>
<td>647</td>
<td>54.3%</td>
</tr>
<tr>
<td><strong>North West</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burnie</td>
<td>19,892</td>
<td>17,217</td>
<td>37,157</td>
<td>866</td>
<td>46.3%</td>
</tr>
<tr>
<td>Central Coast</td>
<td>21,747</td>
<td>10,914</td>
<td>24,753</td>
<td>502</td>
<td>44.1%</td>
</tr>
<tr>
<td>Circular Head</td>
<td>8,263</td>
<td>5,993</td>
<td>14,063</td>
<td>725</td>
<td>42.6%</td>
</tr>
<tr>
<td>Devonport</td>
<td>25,551</td>
<td>20,666</td>
<td>31,628</td>
<td>809</td>
<td>65.3%</td>
</tr>
<tr>
<td>Kentish</td>
<td>6,286</td>
<td>4,082</td>
<td>8,855</td>
<td>649</td>
<td>46.1%</td>
</tr>
<tr>
<td>King Island</td>
<td>1,683</td>
<td>1,581</td>
<td>6,033</td>
<td>939</td>
<td>26.2%</td>
</tr>
<tr>
<td>Latrobe</td>
<td>10,020</td>
<td>5,018</td>
<td>10,118</td>
<td>501</td>
<td>49.6%</td>
</tr>
<tr>
<td>Waratah-Wynyard</td>
<td>14,096</td>
<td>7,314</td>
<td>13,767</td>
<td>519</td>
<td>53.1%</td>
</tr>
<tr>
<td>West Coast</td>
<td>5,251</td>
<td>5,074</td>
<td>11,953</td>
<td>966</td>
<td>42.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>112,789</td>
<td>77,859</td>
<td>158,326</td>
<td>690</td>
<td>49.2%</td>
</tr>
<tr>
<td><strong>Southern</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brighton</td>
<td>16,358</td>
<td>6,095</td>
<td>13,804</td>
<td>373</td>
<td>44.2%</td>
</tr>
<tr>
<td>Central Highlands</td>
<td>2,322</td>
<td>2,531</td>
<td>6,233</td>
<td>1,090</td>
<td>40.6%</td>
</tr>
<tr>
<td>Clarence</td>
<td>52,935</td>
<td>35,120</td>
<td>60,390</td>
<td>663</td>
<td>58.2%</td>
</tr>
<tr>
<td>Derwent Valley</td>
<td>10,118</td>
<td>4,839</td>
<td>9,524</td>
<td>478</td>
<td>50.8%</td>
</tr>
<tr>
<td>Glamorgan-Spring Bay</td>
<td>4,507</td>
<td>5,273</td>
<td>9,708</td>
<td>1,170</td>
<td>54.3%</td>
</tr>
<tr>
<td>Glenorchy</td>
<td>44,716</td>
<td>21,391</td>
<td>53,974</td>
<td>478</td>
<td>39.6%</td>
</tr>
<tr>
<td>Hobart</td>
<td>50,078</td>
<td>55,051</td>
<td>96,909</td>
<td>1,099</td>
<td>56.8%</td>
</tr>
<tr>
<td>Huon Valley</td>
<td>15,372</td>
<td>7,698</td>
<td>20,067</td>
<td>501</td>
<td>38.4%</td>
</tr>
<tr>
<td>Kingborough</td>
<td>34,171</td>
<td>17,414</td>
<td>37,216</td>
<td>510</td>
<td>46.8%</td>
</tr>
<tr>
<td>Sorell</td>
<td>13,407</td>
<td>8,673</td>
<td>16,359</td>
<td>647</td>
<td>53.0%</td>
</tr>
<tr>
<td>Southern Midlands</td>
<td>6,146</td>
<td>3,422</td>
<td>8,939</td>
<td>557</td>
<td>38.3%</td>
</tr>
<tr>
<td>Tasman</td>
<td>2,413</td>
<td>3,347</td>
<td>5,632</td>
<td>1,387</td>
<td>59.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>252,543</td>
<td>170,852</td>
<td>338,756</td>
<td>677</td>
<td>50.4%</td>
</tr>
<tr>
<td><strong>Tasmania</strong></td>
<td>507,643</td>
<td>340,746</td>
<td>666,640</td>
<td>671</td>
<td>51.1%</td>
</tr>
</tbody>
</table>

*Source:* Australian Bureau of Statistics (ABS) Regional Population Growth, Cat. No. 32180.0; 2011 Tasmanian Department of Premier and Cabinet; Council 2009-10 annual reports financial statements.
6.3.3 Tasmanian Council Expenditure

Table 6.2 provides data for Tasmanian council expenditure and employment. In per capita terms, the Northern region had an average expenditure of $1,101 per person. By way of comparison, the North West region had an average expenditure of $1,370 per person whereas the Southern region had an average expenditure of $1,239 per person. With respect to individual local councils, the Brighton Council in the Hobart metropolitan region had the lowest expenses per capita of all local authorities. Given the fact that in all Australian local government jurisdictions a substantial percentage of expenditure occurs on activities mandated under legislation and at prescribed service standards, expenditure per capita represents a reasonable proxy for operational efficiency in urban councils. It thus allows us to make inferences concerning council operational efficiency.

This fact somehow escaped the attention of the Munro Report (2011, p.12) which misguidedly observed that ‘Brighton Council has very low rates per capita, reflecting its parsimonious operating expenses and the fact that it has an above-average proportion of lower-valued residential properties within its boundaries’. This is not only untrue, as evidenced by the fact that in the STCA region Tasman has the highest rates in Tasmania and its property values are lower than Brighton, but also conveniently overlooks operational efficiency. Had the Munro Report placed Brighton in the broader Tasmanian context, in which many local authorities have lower property values than Brighton, it would not have erred so badly.
Table 6.3: Local government areas by population, council expenses and employment, 2009/10

<table>
<thead>
<tr>
<th>Council</th>
<th>Population</th>
<th>No. of Full Time Equivalent Employees (FTEs) 2007-08</th>
<th>Total Expenses $000's</th>
<th>Expenses per capita $</th>
<th>FTE employment per 1000 people (2007-08)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Northern</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Break O'Day</td>
<td>6,514</td>
<td>68</td>
<td>11,582</td>
<td>1,778</td>
<td>10.4</td>
</tr>
<tr>
<td>Dorset</td>
<td>7,355</td>
<td>53</td>
<td>10331</td>
<td>1,405</td>
<td>7.2</td>
</tr>
<tr>
<td>Flinders</td>
<td>900</td>
<td>23</td>
<td>4046</td>
<td>4,496</td>
<td>25.6</td>
</tr>
<tr>
<td>George Town</td>
<td>6,892</td>
<td>50</td>
<td>8909</td>
<td>1,293</td>
<td>7.3</td>
</tr>
<tr>
<td>Launceston</td>
<td>65,826</td>
<td>459</td>
<td>76759</td>
<td>1,166</td>
<td>7.0</td>
</tr>
<tr>
<td>Meander Valley</td>
<td>19,694</td>
<td>75</td>
<td>14332</td>
<td>728</td>
<td>3.8</td>
</tr>
<tr>
<td>Northern Midlands</td>
<td>12,654</td>
<td>74</td>
<td>13486</td>
<td>1,066</td>
<td>5.8</td>
</tr>
<tr>
<td>West Tamar</td>
<td>22,476</td>
<td>97</td>
<td>17286</td>
<td>769</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>142,311</td>
<td>899</td>
<td>156,732</td>
<td>1,101</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>North West</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burnie</td>
<td>19,892</td>
<td>216</td>
<td>43397</td>
<td>2,182</td>
<td>10.9</td>
</tr>
<tr>
<td>Central Coast</td>
<td>21,747</td>
<td>157</td>
<td>21631</td>
<td>995</td>
<td>7.2</td>
</tr>
<tr>
<td>Circular Head</td>
<td>8,263</td>
<td>54</td>
<td>11680</td>
<td>1,414</td>
<td>6.5</td>
</tr>
<tr>
<td>Devonport</td>
<td>25,551</td>
<td>191</td>
<td>31770</td>
<td>1,243</td>
<td>7.5</td>
</tr>
<tr>
<td>Kentish</td>
<td>6,286</td>
<td>29</td>
<td>7413</td>
<td>1,179</td>
<td>4.6</td>
</tr>
<tr>
<td>King Island</td>
<td>1,683</td>
<td>32</td>
<td>5616</td>
<td>3,337</td>
<td>19.0</td>
</tr>
<tr>
<td>Latrobe</td>
<td>10,020</td>
<td>54</td>
<td>10118</td>
<td>1,010</td>
<td>5.4</td>
</tr>
<tr>
<td>Waratah-Wynyard</td>
<td>14,096</td>
<td>89</td>
<td>13762</td>
<td>976</td>
<td>6.3</td>
</tr>
<tr>
<td>West Coast</td>
<td>5,251</td>
<td>56</td>
<td>9113</td>
<td>1,735</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>112,789</td>
<td>878</td>
<td>154,500</td>
<td>1,370</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Southern</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brighton</td>
<td>16,358</td>
<td>49</td>
<td>10847</td>
<td>663</td>
<td>3.7</td>
</tr>
<tr>
<td>Central Highlands</td>
<td>2,322</td>
<td>37</td>
<td>9211</td>
<td>3,967</td>
<td>15.9</td>
</tr>
<tr>
<td>Clarence</td>
<td>52,935</td>
<td>240</td>
<td>50244</td>
<td>949</td>
<td>4.5</td>
</tr>
<tr>
<td>Derwent Valley</td>
<td>10,118</td>
<td>54</td>
<td>9420</td>
<td>931</td>
<td>5.3</td>
</tr>
<tr>
<td>Glamorgan-Spring Bay</td>
<td>4,507</td>
<td>43</td>
<td>8490</td>
<td>1,884</td>
<td>9.5</td>
</tr>
<tr>
<td>Glenorchy</td>
<td>44,716</td>
<td>324</td>
<td>52894</td>
<td>1,183</td>
<td>7.2</td>
</tr>
<tr>
<td>Hobart</td>
<td>50,078</td>
<td>584</td>
<td>94368</td>
<td>1,884</td>
<td>11.7</td>
</tr>
<tr>
<td>Huon Valley</td>
<td>15,372</td>
<td>152</td>
<td>19156</td>
<td>1,246</td>
<td>9.9</td>
</tr>
<tr>
<td>Kingborough</td>
<td>34,171</td>
<td>181</td>
<td>31807</td>
<td>931</td>
<td>5.3</td>
</tr>
<tr>
<td>Sorell</td>
<td>13,407</td>
<td>86</td>
<td>13540</td>
<td>1,010</td>
<td>6.4</td>
</tr>
<tr>
<td>Southern Midlands</td>
<td>6,146</td>
<td>45</td>
<td>8124</td>
<td>1,322</td>
<td>7.3</td>
</tr>
<tr>
<td>Tasman</td>
<td>2,413</td>
<td>20</td>
<td>4686</td>
<td>1,942</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>252,543</td>
<td>1,827</td>
<td>312,787</td>
<td>1,239</td>
<td>7.2</td>
</tr>
<tr>
<td><strong>Tasmania</strong></td>
<td>507,643</td>
<td>3,604</td>
<td>624,019</td>
<td>1,229</td>
<td>7.1</td>
</tr>
</tbody>
</table>

Regarding local government employment, the Northern region has an average full-time equivalent (FTE) employment rate of 6.3 per 1,000 persons, the North West region has the highest FTE rate with 7.8 FTEs per 1,000 persons, and Southern Tasmania has an FTE rate of 7.2 per 1000 persons, with Brighton on the lowest FTE rate for all Tasmania (at 3.7 per 1000 persons). Reflecting its ‘bigger is better’ bias, the Munro Report simply ignored this fact in its analysis of the STCA group.

A second approach to the relative performance of the STCA group of councils is to examine the relative standing of local authorities in the proposed Greater Hobart Council recommended by the Munro Report (i.e. Hobart, Glenorchy, Clarence and Kingborough). Table 6.4 contains relevant indicators:

**Table 6.4: Council Indicator Comparison 2010/11**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Benchmark</th>
<th>Brighton</th>
<th>Clarence</th>
<th>Glenorchy</th>
<th>Hobart</th>
<th>Kingborough</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Surplus Ratio</td>
<td>&gt;0</td>
<td>12</td>
<td>-1.1</td>
<td>-6.6</td>
<td>-2.35</td>
<td>-5.75</td>
</tr>
<tr>
<td>Asset Sustainability Ratio</td>
<td>100%</td>
<td>100</td>
<td>53</td>
<td>51</td>
<td>80</td>
<td>64</td>
</tr>
<tr>
<td>Road Consumption Ratio</td>
<td>&gt;60%</td>
<td>67.4</td>
<td>50.4</td>
<td>50</td>
<td>62.5</td>
<td>63.7</td>
</tr>
<tr>
<td>Net Financial Liabilities Ratio</td>
<td>0 - (50%)</td>
<td>26.8</td>
<td>84.7</td>
<td>12.4</td>
<td>-16.1</td>
<td>17.9</td>
</tr>
<tr>
<td>Asset Renewal Funding Ratio</td>
<td>90% - 100%</td>
<td>100</td>
<td>N/A</td>
<td>91</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Liquidity Ratio</td>
<td>2:1</td>
<td>5.69</td>
<td>8.86</td>
<td>5.28</td>
<td>3.96</td>
<td>3.02</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>&gt;1</td>
<td>3.23</td>
<td>6.11</td>
<td>3.34</td>
<td>1.84</td>
<td>2.43</td>
</tr>
<tr>
<td>Interest Coverage Ratio</td>
<td>3:1</td>
<td>92.11</td>
<td>151.96</td>
<td>3.62</td>
<td>33.09</td>
<td>284</td>
</tr>
<tr>
<td>Asset Investment Ratio</td>
<td>&gt;100%</td>
<td>182</td>
<td>82</td>
<td>87</td>
<td>179</td>
<td>159</td>
</tr>
<tr>
<td>Debt Collection</td>
<td>30 days</td>
<td>13</td>
<td>27</td>
<td>31</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Creditor Turnover</td>
<td>30 days</td>
<td>7</td>
<td>21</td>
<td>5</td>
<td>19</td>
<td>34</td>
</tr>
<tr>
<td>Population</td>
<td></td>
<td>16,358</td>
<td>52,935</td>
<td>44,716</td>
<td>50,078</td>
<td>34,171</td>
</tr>
<tr>
<td>Number of Rateable Properties</td>
<td></td>
<td>6,937</td>
<td>23,618</td>
<td>21,091</td>
<td>23,534</td>
<td>16,095</td>
</tr>
<tr>
<td>FTE's</td>
<td></td>
<td>48</td>
<td>220</td>
<td>273</td>
<td>596</td>
<td>169</td>
</tr>
<tr>
<td>FTE per 1000 Population Operating Revenue</td>
<td>$'000s</td>
<td>2.9</td>
<td>4.2</td>
<td>6.1</td>
<td>11.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Operating Revenue</td>
<td></td>
<td>11,821</td>
<td>49,753</td>
<td>51,116</td>
<td>96,119</td>
<td>29,936</td>
</tr>
<tr>
<td>Operating Expenditure</td>
<td></td>
<td>10,402</td>
<td>50,302</td>
<td>54,492</td>
<td>98,376</td>
<td>31,657</td>
</tr>
</tbody>
</table>


Table 6.4 sheds light on the comparative data on Brighton, Clarence, Glenorchy, Hobart and Kingborough. From this data, it is evident that Brighton is the best performed of its Greater Hobart cohort on almost every indicator in Table 6.4, despite the fact that it by far the smallest council in terms of population. Taken as a whole, Table 6.4 provides striking empirical evidence...
that ‘bigger is not better’ amongst Greater Hobart councils, a fact somehow completely missed by the Munro Report!

In addition to these problems, the Munro Report is replete with errors of fact. For instance, it claims strong community support for amalgamation, yet its community survey identified 80% support for resource sharing with other councils, but only 52% support for a consideration of a merger!

6.4 ANALYSIS OF THE MUNRO REPORT ‘CASE FOR CHANGE’

Chapter 6 of the Munro Report sets out its arguments for Option 3 ‘Greater Hobart and no change in rural areas’ as follows (p. 20):

- ‘The strength that the metropolitan area of Hobart would gain in advocacy for the region with the State and Commonwealth Governments’.

- ‘The opportunities that would flow from the better strategic planning and integration of projects and services across the metropolitan area’.

- ‘The greater potential to achieve the very best professional and political representation to service the needs of Hobart’.

- ‘The cost and efficiency gains that would accrue from more professional council administration and an increase in the skills of local politicians’.

A common theme in each case was the lack of any supporting evidence to buttress these arguments. We assess each argument in turn:
6.4.1 Greater ‘Economic opportunities’

The Munro Report held that although Tasmania is ‘a small isolated island, with a small population, and an economy with special challenges’, there exist ‘opportunities arising from its climate, natural beauty, heritage, niche products, water and energy’ (p. 21). It argued further that to maximise this potential, Tasmania must pursue forceful economic reform, and it observed that the ‘Tasmanian Government is trying to lead an economic reform agenda to make Tasmania more competitive’, but more strenuous efforts are needed. This implied that local government ‘has to be a partner in this reform, and this requires a local government system that is as strong as possible’. Although local government in Tasmania is not ‘totally broken’, the Munro Report asserted that it could be ‘much improved’.

This unsupported proposition reiterates claims made in the Discussion Paper Towards Improved Local Government in Southern Tasmania. The Discussion Paper asserted that ‘the structures of local government (and indeed some aspects of State Government) in Southern Tasmania are a cumbersome mixture of local authority sizes and quasigovernment bodies’. Moreover, ‘they appear to represent a series of “lean-tos” that have been added and changed over the years without there ever having been a comprehensive perspective of the type of government model that the region requires’.

Towards Improved Local Government in Southern Tasmania asserted that ‘with such a variety of local government sizes and capacity, there are clearly opportunities for improved efficiencies and greater effectiveness in service delivery through greater collaboration and joint effort across the Region’. It then proposed that ‘if the experience in other States were to hold true in Tasmania then the efficiencies from reform of local governments in the capital cities and major regional centres have assisted the adjacent hinterland Councils’. No empirical evidence is cited in support of these claims.

It must be stressed that the claim that a single capital city municipality is a precondition for more vigorous economic growth not only has no empirical support, but it also defies observed experience in other Australian states. For instance, while WA is the most rapidly growing Australian state, the Perth metropolitan area is a patchwork of different local government areas.
It is thus obvious that the structure of WA local government has not inhibited vigorous economic development in that state.

6.4.2 ‘Greater Hobart and the rural hinterland’

The Munro Report argued that the Hobart metropolitan area and its hinterland region require ‘a vision, plans and key projects’ since this would facilitate taking advantage of the numerous opportunities which existed, but had to be ‘nurtured and grown’ and this required ‘strong councils working co-operatively with business and the State Government’. Although this contention is plausible, it does not follow that a single metropolitan local government is either a necessary or sufficient condition for efficacious metropolitan-wide planning and coordination. This is obvious if one refers to other metropolitan areas in other countries also richly blessed. For instance, London has successfully integrated these activities while retaining its network of borough councils!

Furthermore, the Munro Report is inconsistent in its logic. Recommendation 13 proposed that ‘the STCA take on the responsibility for formulating and coordinating strategies for the region as a whole, that focus on the Greater Hobart and rural hinterland relationships in areas such as economic development, tourism, niche production and marketing’! Quite clearly merger is not necessary for this to occur.

6.4.3 ‘Example of strong local government’

The third argument presented as part of the ‘case for change’ in the Munro Report (pp. 22/23) rests on unsubstantiated claims that:

- ‘A strong local government system is required in Tasmania’.

- ‘It would look very different to the system that is in place now’.

- ‘It would look more like the Queensland local government system, which is arguably the strongest in Australia’.
The Munro Report asserts that this is because Queensland and Tasmania both possess a comparatively decentralized pattern of urban development. In addition, it stressed that ‘Queensland councils all have directly-elected mayors and a four-year term’ and somehow concluded that ‘such a system in Tasmania would allow the State Government to get on with its task of planning and managing the significant economic, environmental and social agendas for Tasmania’. No evidence is advanced in support of these claims.

These assertions are erroneous on several grounds:

- If the Munro Report had bothered to examine post-amalgamation Queensland local government, it would have learned the costs of merging small local authorities into larger councils were prohibitive. In its Review of Local Government Amalgamation Costs Funding Submissions: Final Summary Report, the Queensland Treasury Corporation (QTC) (2009) observed that affected local governments’ estimates of the costs of amalgamation had amounted to a net cost of amalgamation of $184.71 million.

- The Munro Report would have uncovered the fact that the new representational structures in Queensland are expensive: The reference rate of $137,149 per elected officer (determined by the Local Government Remuneration and Discipline Tribunal) is linked to the annual base salary payable to Members of the Queensland Legislative Assembly. Accordingly, an entity like a Greater Hobart Council would be ranked as a Category 7 Council in Queensland with 12 elected councillors (each paid $102,862 plus $2,370 ‘amalgamation allowance’), a Deputy Mayor (paid $116,577 plus $2,650 ‘amalgamation allowance’), and a Mayor (paid $171,436 plus $3,800 ‘amalgamation allowance’). These calculations do not include other substantial direct costs, such as vehicles and administrative assistants for these representatives (Local Government Remuneration and Discipline Tribunal, 2011).
• The Munro Report would have learned that no scholarly evaluation of the post-amalgamation operational efficiency of Queensland local government had yet been undertaken and there is thus no evidence to support claims that its performance has improved. Indeed, widespread community disillusionment exists in Queensland and numerous groups are calling for de-amalgamation.

6.4.4 ‘Efficiency and cost savings’

The most controversial and ill-founded aspect of the Munro Report (p. 23) surrounds its unsupported and exaggerated claims that significant cost savings and efficiency gains would flow from a Greater Hobart Council. For example, the Munro Report asserts that ‘while the consultancy firm Deloitte predicts savings of up to 35% from creating a single Southern Tasmanian Regional Council’, it believed that ‘savings achieved would more likely be in the order of up to 15% of the 12 councils’ combined expenditure’, particularly in ‘governance, senior management, asset management, capital expenditure and procurement of goods and services’. Moreover, it claims that ‘with an estimated $48 million expenditure on asset maintenance by the metropolitan Hobart councils’, improved maintenance would reduce this by between $5 million to $15 million. No calculations whatsoever are offered to show how these values have been computed.

In addition to these unsubstantiated assertions, the Munro Report claims that of the $235.4 million per annum in total expenditure by Southern Tasmania councils, ‘some 30% to 40%, equating to between $71 million and $94 million, would be spent on materials and services’ and somehow ‘savings in the order of $7 million to $9 million would thus be achievable over an 18-month period by adopting strategic procurement for the Southern Tasmanian councils’. Quite apart from the unsubstantiated nature of these claims, it is obvious that joint procurement schemes and the like can be implemented independently of any amalgamation.

Given the centrality of the claims made in the Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania regarding efficiency and cost savings with the implementation of Option 3, it is worth recalling the literature outlined in Chapter 2, Chapter 3 and Chapter 4 of this Report. Chapter 2 and Chapter 3 produced a wealth of material
which demonstrated that the doctrine of ‘bigger is better’ in Australian local government has been eroded in large part as a consequence of deep disenchantment with the outcomes of actual amalgamation programs. For example, Chapter 3 cited extravagant claims from proponents of the South Australian and Victorian council merger programs in the ‘nineties. While the Victorian government claimed at the time that its radical reform process would generate direct cost savings of 20%, the actual outcome has been a mere 8.5%, most of which has flowed from competitive tendering and not the restructuring program (Allan, 2003, p. 75). Similarly, Chapter 3 noted that, the South Australian authorities heralded savings of 17.4%, but in fact only achieved 2.3% (Allan, 2003, p. 75). Moreover, it was emphasized that these realized savings did not take into account the indirect costs of council consolidations, such as lower economic activity and falling employment in rural and regional areas. Chapter 2 demonstrated that scepticism about the purported benefits of amalgamation was universal in the various national and state public inquiries into Australian local government. Set against this evidence, the extravagant and unsubstantiated claims made in the Munro Report simply cannot be taken seriously.

4.5 ‘Greater Hobart Council’

The final argument proposed in the Munro Report focused on the advantages which would flow from a Greater Hobart Council which would comprise ‘the whole metropolitan area of Hobart’ and ‘lead to the city having one mayor and one council’ and, in due course, ‘one set of policies, regulations, and service delivery standards’. The Report asserted that ‘there is evidence from around the world that higher levels of government, businesses, investors, journalists and other stakeholders are increasingly wanting to deal with one leader for a city, not a multiplicity of leaders’. In addition, it attacked fears that ‘a Greater Hobart Council would lead to more involvement of political parties in local government’ as ‘unwarranted’, despite the fact that Brisbane City Council (the largest in Australia) is awash with party political tensions and its Mayor has recently been elected as Premier of Queensland! In common with the rest of the Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania, no empirical evidence is produced to support these exaggerated assertions.

No-one would dispute the argument that there is a need for a ‘city-wide’ planning authority to deal with broader advocacy, coordination and planning questions affecting the Greater Hobart
metropolitan region. Indeed, a vast body of work deals with precisely this matter in the local public finance literature (see, for example, Oates, 1972). It is universally agreed that positive and negative spatial externalities are a pervasive feature of the operation of local government, especially in large metropolitan areas. In real-world practice, it is very easy to find examples of where decisions made in one local council jurisdiction, or where activities carried out in a single local government area, can have decisive effects on other council jurisdictions in the region. For instance, the construction of large sports venues, industrial complexes and housing developments, which involve large numbers of people, typically impose significant congestion costs on surrounding jurisdictions. Moreover, the traditional theoretical solution to these problems, which uses charges and subsidies to ‘internalise’ these externalities, is not generally available to Australian local authorities since it falls outside of their powers.

Under these circumstances, the optimal approach resides in assigning decision-making authority to a regional body that is obliged to consider the metropolitan ramifications of policy decisions. Thus in the case of Greater Hobart, a ‘city-wide’ governmental entity would govern functions which affected the whole of Southern Tasmania, like regional transportation.

The case for a ‘city-wide’ authority for Greater Hobart - analogous to the Greater London Authority – justified on grounds of externalities is not new. Furthermore, the creation of a ‘city-wide’ authority is by no means incompatible with the continued existence of numerous small local councils in the greater metropolitan area. Indeed, if local autonomy over local ‘place-shaping’ (Dollery, Grant and O’Keefe, 2008) is to have any meaning, then the retention of existing small councils is essential. Using the example of greater Los Angeles, Oakerson and Svorny (2005) have demonstrated that small municipal entities are perfectly compatible with sensible regional planning arrangements.

It is strikingly ironic that the Munro Report itself recognised precisely this reality. Indeed, its very own Recommendation 13 proposed that ‘the STCA take on the responsibility for formulating and coordinating strategies for the region as a whole, that focus on the Greater Hobart and rural hinterland relationships in areas such as economic development, tourism, niche
production and marketing’. It need hardly be stressed that Recommendation 13 could be implemented without an amalgamation.

6.5 CONCLUDING REMARKS

The analysis conducted in Chapter 6 has demonstrated that the Munro Report has not only failed to present a convincing case for an amalgamated Greater Hobart Council, but it has made numerous mistaken claims without presenting any supporting evidence, especially with regard to its unsupported and exaggerated estimates of cost savings. This seems to stem from the fact that the Munro Report did not bother to consult the conceptual and empirical literature on structural reform. Moreover, in its assessment of the performance of greater Hobart councils, Chapter 6 has shown that the Panel both misinterpreted existing comparative statistics and ignored important evidence. These problems render the public policy recommendations in the Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania fatally flawed.
CHAPTER 7: CRITICAL ASSESSMENT OF DELOITTE ACCESS ECONOMICS LOCAL GOVERNMENT STRUCTURAL REFORM IN TASMANIA

7.1 INTRODUCTION

The Tasmanian Division of the Property Council of Australia engaged the for-profit consulting company Deloitte Access Economics to ‘examine the case for, and potential benefits from, further local government structural reform in Tasmania’ (Deloitte Access Economics, 2011, p. 1). It is instructive to note that the terms of reference given to Deloitte Access Economics did not require it to consider the costs associated with amalgamation nor examine in any detail the outcomes of other Australian amalgamation exercises. In August 2011, Deloitte Access Economics (2011) duly produced a report entitled Local Government Structural Reform in Tasmania which was made public. In this Report, Deloitte Access Economics (2011) made three ‘key findings’:

- ‘Structural reform of councils in Tasmania could allow for efficiency gains of up to 35% if appropriately conceived and effectively managed. Past experience in Tasmania and elsewhere in Australia suggests gains of at least 10 and 20%’.

- ‘Benefits will be achieved through economies of scale, a broadened scope of operations and improved specialisation, creating potential for enhanced financial sustainability, more efficient governance and greater competency within councils’.

- ‘Community benefits will be achieved through a greater capacity to deliver improved and potentially increased service levels to a broader section of the
community, while either reducing or slowing the rate of increase of council rates’.

While these claims are as extravagant as those presented in the Munro Report, examined in Chapter 6 of this Report, significant differences exist between these advocacy documents, including the fact that the authors of *Local Government Structural Reform in Tasmania* have at least sought to engage with the scholarly literature on structural reform in Australian local government. Moreover, they have taken care to qualify their findings with various caveats. For example, the authors of *Local Government Structural Reform in Tasmania* (p. 1) have been at pains to point out that the Report represents ‘relatively high level analysis that draws on the findings of a stylised case study of potential efficiency gains that may be achieved through the formation of a “Southern” council, as well as canvassing potential wider social and economic impacts’. Deloitte Access Economics (2011, p. 2) has been careful to further qualify its findings by noting *inter alia* that its ‘analysis of potential efficiency gains… extrapolates these findings to a stylistic quantification of potential benefits from the formation of a “Southern” council’. It is stressed that ‘the potential economic benefits canvassed in this analysis cannot be assumed to be decisive outcomes, as many factors are at play that may influence their realisation’. Similarly, ‘our analysis has been conducted purely through desktop research by examining the existing literature and by analysing publicly available data pertaining to local government in Tasmania and in other states’ and a ‘more detailed study might also draw on consultations with councils and other stakeholders, as well as seeking additional data directly from councils’. These caveats stand in marked contrast to the wild and unqualified assertions made in *Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania*.

However, the detailed review of the empirical literature conducted in Chapter 4, together with the analysis of amalgamation outcomes in the various national and state public inquiries presented in Chapter 2, as well as the discussion of available scholarly material in Chapter 3, all serve to cast doubt on claims that ‘gains of at least 10 and 20%’ will flow from council amalgamations. Given the fact that the vociferous campaign for radical amalgamation of Tasmanian local government by the Property Council and other ‘self-interest’ groups has relied heavily on the veracity of these claims in *Local Government Structural Reform in Tasmania*,
and that the NTD group of councils falls squarely in the sights of these campaigners, it is important to evaluate in detail the Deloitte Access Economics (2011) report. This represents the aim of Chapter 7.

Chapter 7 is divided into six main parts. Section 7.2 considers Chapter 2 of Local Government Structural Reform in Tasmania which seeks to set the scene for the remainder of the Deloitte Access Economics (2011) report based on the claim that larger local councils are a precondition for more rapid economic growth. Section 7.3 evaluates the ‘rationale and experience’ for local government amalgamation presented in Chapter 3 of Local Government Structural Reform in Tasmania in which the Deloitte Access Economics (2011) report described the evidence on amalgamation found in the academic literature and various state reviews of structural reform. Section 7.4 evaluates the modelling conducted by Deloitte Access Economics (2011). Section 7.5 briefly canvasses the ‘broader benefits’ presented by Deloitte Access Economics (2011) in Chapter 4. Section 7.6 considers the Deloitte Access Economics (2011) report on successful implementation. Chapter 7 ends in section 7.7 with some brief concluding remarks.

**7.2 IS AMALGAMATION A PRECONDITION FOR ECONOMIC PROSPERITY?**

Chapter 2 of the Deloitte Access Economics (2011) report attempts to build a case for a program of radical local government amalgamation in Tasmania by linking it to the national microeconomic reform process initiated in the 1980s. It argues that ‘if Australia is to continue to enjoy increasing levels of economic prosperity, in the face of the significant economic challenges that the future holds, identifying and initiating productivity-enhancing microeconomic reform will be paramount’. Moreover, ‘well conceived and effectively executed local government structural reform has a modest, but important contribution to make to this reform agenda’ (p. 5). While it is universally acknowledged that microeconomic reform has played a key role in contemporary Australian economic prosperity, it is a very long bow indeed to claim that local government amalgamation must form part of this microeconomic reform process.

Indeed, it is easy to demonstrate that the alleged causal connection between larger local government entities and economic prosperity is so tenuous that, even in terms of its own
reasoning, Deloitte Access Economics (2011) manages to undermine its own claim. Deloitte Access Economics (2011, p. 8) begins its argument by noting that ‘compared with other states and territories, Tasmania has a relatively small population and a relatively small number of local government areas (LGAs), and that ‘while other states have LGAs with a smaller population than Tasmania’s smallest council, these are typically in remote areas with low population densities’, and that ‘Tasmania’s largest council is smaller than the largest councils of all other states and the Northern Territory’. Given the total population in Tasmania, as well as its spatial dispersion, this is hardly surprising.

However, Deloitte Access Economics (2011, p. 9) is immediately forced to concede that the ‘majority of councils in all states (except Victoria) have a population of less than 25,000’ and that ‘this majority is particularly significant for Tasmania which, at 79%, is broadly on par with the Northern Territory and Western Australia’. Moreover, Deloitte Access Economics (2011, p. 8) is obliged to admit that ‘Western Australia and the Northern Territory have a smaller average council size than Tasmania’. What it omits to mention is that, in common with Adelaide, Hobart, and Melbourne, the Perth metropolitan area is governed by a patchwork of different local councils. Given the rapid economic growth occurring in Western Australia, it is very hard to conclude that single large metropolitan councils in capital cities is an essential precondition for economic prosperity!

A further noteworthy flaw in the Deloitte Access Economics (2011) report’s attempt to paint local government restructuring as a vital element in economic growth resides in its neglect of other methods of reforming local government apart from heavy-handed forced amalgamation. For example, as we noted in Chapter 6, in urban areas such as greater Hobart and greater Launceston, metropolitan-wide planning through bodies like the STCA is entirely compatible with the continued existence of the current council configuration.

7.3 DELOITTE ACCESS ECONOMICS ‘RATIONALE AND EXPERIENCE’ IN STRUCTURAL REFORM

With respect to the case for local government reform, Deloitte Access Economics (2011, p. 11) contends that ‘theoretical arguments for local government amalgamation are generally mounted
on the basis of economies of scale; scope; and specialisation’. In particular, Deloitte Access Economics (2011) focuses on scale economies as a source of cost savings from amalgamated large councils. A number of serious problems are apparent in the Deloitte Access Economics (2011) approach.

7.3.1 Population Size as a Proxy for Local Council Size

Deloitte Access Economics (2011) appears to be aware of some of the problems associated with the claims of substantial cost savings associated with increased council size. For example, although Deloitte Access Economics (2011, p. 11) contends that ‘in the case of local government, the level of production can generally be proxied by resident population’, it adds the essential caveat that ‘it must be noted that this is not always a perfect proxy for the level of council services provided’ since not only does the composition of services vary greatly between different councils, but demographic, socio-economic, topographical and many other factors render calculations based on population size fraught with difficulties. In this regard, Deloitte Access Economics (2011, p. 11) acknowledges the force of the argument presented in Dollery, Byrnes and Crase (2008) that the nature of ‘non-discretionary’ environmental elements, service quality differences and inter-council variations in service provision make population size inadmissible as a proxy for council. However, despite this acknowledgement, Deloitte Access Economics (2011, p. 11) unaccountably still feels able to assert that ‘in most cases, the size of the population serviced by a council will be the most important determinant of their level of services provided, making it a meaningful proxy in an analysis of this nature’. Deloitte Access Economics also cited the comprehensive survey of Australian and international empirical work on scale economies in local government conducted by Byrnes and Dollery (2002), but it somehow ignored the findings of Byrnes and Dollery (2002), which demonstrated evidence is mixed and inconclusive for Australian local government.

In its dismissal of the conceptual and empirical problems associated with using population size as a proxy for council size, Deloitte Access Economics (2011) sets the scene for simple regression analysis of population size against service costs. While analysis of this kind can be done easily, quickly and cheaply, in Chapter 3 we have shown that it is not empirically justifiable. Given the pivotal importance of this approach to the empirical aspects of Local
Government Structural Reform in Tasmania it is worth reiterating the validity of objections to the use of population size as a proxy for council size in local government and briefly outlining ‘cutting edge’ empirical analysis which has now moved away from population to population density as the main driver of service costs per capita.

Historically, empirical work on scale economies in local government has estimated the relationship between output (usually measured in terms of population) and the costs of services (usually measured in terms of per capita expenditure). However, several fundamental criticisms have been levelled at research in this vein:

- Population may be a poor proxy for output (due, for example, to the fact that local government areas with similar sized populations often have dramatically different demographic, economic and social characteristics) (Boyne 1995; Dollery, Byrnes and Crase, 2008); and

- The vast majority of extant empirical studies – with the notable exceptions of Holcombe and Williams (2008; 2009) – do not explicitly disentangle the relationship between population and population density.

Although population may be a poor proxy for output, finding accurate measures of the aggregated multiple outputs of local government authorities is difficult (Andrews and Boyne, 2009). Moreover, even if separate output measures were available, it is far from clear whether they could be meaningfully weighted and combined into a single index (Andrews and Boyne, 2009). In an analogous vein, Holcombe and Williams (2009, p. 419) have argued that ‘government output is multidimensional, so even if one could define a unit of police services, or a unit of sewer services, if some communities produce more police services and other produce more sewer service they cannot be added up to create a homogenous measure of government output’.

In a pioneering paper, Holcombe and Williams (2009) argued that a critical factor which influences per capita expenditure is population density because municipalities with a larger
population also tend have higher population densities. Estimates of the impact of population on per capita expenditure may thus be capturing the influence of population density rather than population size \textit{per se}. This line of reasoning is evident in the urban sprawl literature where debate has focused on the impact that population density has on per capita government expenditure. For example, Burchell and Mukherji (2003) argued that higher population densities could result in lower per capita expenditure, whereas Cox and Utt (2004) present the converse case. A further complicating factor resides in the possibility that the effects of population and population density could offset – or cancel – each other out. Thus, while higher population leads to higher expenditure, higher population density leads to lower expenditure. Accordingly, in estimations of scale economies in local government, such as the Deloitte Access Economics (2011) analysis of Tasmanian local government, it is important to disentangle the relationship between population size and population density.

While there is an expansive body of literature on local government expenditure \textit{per se}, comparatively limited empirical research has examined the relationship between local government expenditure and population density. For instance, Ladd (1992) used 1985 data on 247 large US county areas to examine empirically the relationship between population density and municipal expenditure. Ladd (1992) observed a ‘U-shaped’ relationship between per capita expenditure and density, except in sparsely populated areas, where a higher density was typically associated with increased public expenditure. In a more recent study, Holcombe and Williams (2009) explicitly controlled for the possible influence of population density in exploring whether municipal government expenditure is characterized by economies of scale. In their preliminary analysis, it appeared that municipal government expenditure was characterized by diseconomies of scale. However, when the authors stratified local government entities by population density then the picture became more complicated (Holcombe and Williams, 2009, p. 416).

The empirical literature also identifies a number of other factors which could affect the level of local government expenditure. These include (i) population growth, (ii) income and wealth effects, and (iii) demographic factors (Boyne, 1995; Byrnes and Dollery, 2002; Holcombe and Williams, 2009). Population growth may be an important factor because a local government area experiencing high population growth may require new urban infrastructure, which, in turn, can
lead to an increase in the demand for local government services. In addition, it is important to account for income and wealth effects because ‘if government output is a normal good, expenditures should rise with increases in income and wealth’ (Holcombe and Williams, 2009, p. 421). Finally, demographic factors may also influence the demand and supply of local government services. To account for these demographic effects, empirical studies have often included socioeconomic factors, such as the percentage of single-parent households and the unemployment rate, as control variables (Boyne, 1995; Byrnes and Dollery, 2002; Holcombe and Williams, 2009).

7.3.2 Different Services Possess Different Cost Characteristics

Deloitte Access Economics (2011) explicitly recognizes that local government service provision encompasses a wide range of functions and services, each with its own production characteristics. For example, Deloitte Access Economics (2011, p.11) notes that ‘local councils provide a basket of services, ranging from direct services such as roads, stormwater drainage and waste collection to more abstract services, such as ‘local democracy’, adding that ‘in the case of the direct services, the degree to which they are characterized by economies of scale varies’, with ‘the primary source of this variation [being]… the extent to which costs of provision are fixed’, and thus ‘services which are characterized by significant fixed costs offer greater opportunities for economies of scale’. Had Deloitte Access Economics (2011) been fully acquainted with the literature on scale economies in local government, it would have been aware of the facts set out in Chapter 3 and Chapter 5 of this Report on empirical work on scale economies. For instance, Deloitte Access Economics (2011) would have learned that no uniform pattern of economies of scale exists across the range of goods and services produced by Australian councils. Moreover, there is no a priori reason that for a given local council the optimal service district for libraries will coincide with, or even resemble, optimal service districts for, say, domestic garbage collection, public parks, or sewage treatment services. Thus while larger councils may capture economies of scale in some outputs, they could equally reap diseconomies of scale in other areas. As we pointed out in Chapter 3, Andrew Sancton (2000, p. 74) put his finger on the core of the argument as follows: ‘There is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas’.
7.3.3 Evidence from ‘State-Specific Research and Reviews’


The neglect of these vital contemporary sources of information on the desirability or otherwise of forced amalgamation, especially the LGAT (2007) report, is so decidedly odd that it suggests that Deloitte Access Economics (2011) may have carefully ‘cherry-picked’ only those documents which offered support for its case in favour of compulsory consolidation.
If we examine its analysis of episodes of amalgamation, then the highly selective nature of the Deloitte Access Economics (2011) report becomes obvious. For instance, in its discussion of South Australia, Deloitte Access Economics (2011, p. 15) considers only the findings of the *Local Government Boundary Reform Board January 1996 – September 1998 Report* (State Government of South Australia 1998), which estimated ‘recurrent savings at $19.4 million each year and one-off savings of $3.9 million’, and observed that ‘the capacity of councils had been improved, chiefly through additional capacity for improved and consistent planning decisions, greater resource bases for amalgamated councils and additional capacity for local government to improve the range and quality of its services and to participate in the development of SA’s economy (particularly regional areas)’.

However, Deloitte Access Economics (2011, p. 15) did point out that ‘Dollery (2009) has subsequently called these savings estimates into question, citing analysis undertaken by the Financial Sustainability Review Board (FSRB), specifically the FSRB’s point that ‘whether the on-going savings have in fact continued is a moot point’ (FSRB 2005, cited in Dollery, 2009, p.6) and concluded that ‘in the lack of any further empirical research that specifically focuses on the outcomes of council structural reform in South Australia, it is difficult to reach a conclusion either way’. Moreover, it noted that ‘an independent report was commissioned by the Local Government Boundary Reform Board which estimated possible savings of $22.1 million in annual operational costs from further reforms’, with the qualification that ‘there is a strong caveat that *these are speculative, rather than definitive*, and would depend upon precise reform options and how councils opt to use efficiency benefits’ (p. 15 emphasis added). No explanation is offered for the failure of Deloitte Access Economics (2011) to consult the much more recent and comprehensive South Australian Financial Sustainability Review Board’s (FSRB) (2005) *Rising to the Challenge* Report.

Had Deloitte Access Economics (2011) bothered to consult the South Australian Financial Sustainability Review Board’s (FSRB) (2005) *Rising to the Challenge* Report, then it would have established that, as we saw in Chapter 2 of this Report, the FSRB (2005) drew a variety of conclusions on amalgamation. It found that ‘there is no strong relationship between a council's
organisational size and either a strong financial position or a good annual financial performance’ (FSRB, 2005, 49). Moreover, ‘the size and density of councils played little role in explaining the observed differences in the sustainability of the long-term financial performance and position of councils’. It thus concluded that ‘because relative growth rates, size and density of councils altogether explain only a fraction of the differences observed in the sustainability of the long-term financial performance and position of councils, other financial characteristics must be more important contributors’.

The FSRB (2005, p. 85) also evaluated the claims made by the SA Local Government Boundary Review Board, cited at length by Deloitte Access Economics (2011), prior to its structural reform program which reduced the number of councils from 118 to 68 in the post-1995 period, especially the forecast ‘recurrent savings’ of $19.4 million per annum and ‘one-off savings’ of $3.9 million. As noted above, the FSRB (2005, p. 85) found that ‘whether the ongoing savings have in fact continued is a moot point’ since ‘fewer, larger councils are not the instant or easy fix that many would like to believe’, particularly in ‘non-metropolitan areas dominated by the “tyranny of distance” and other impediments’.

The FSRB (2005, p. 85) concluded that amalgamation produces ‘considerable costs and often exaggerated benefits’. Alternative models of council cooperation should thus be pursued, since there are ‘many intermediate forms of cooperation/integration among councils, with amalgamation being the most extreme (and confronting) form of integration’. The FSRB (2005, p. 85) found that numerous ‘voluntary arrangements’ in shared services and joint enterprise had proved successful in SA, with both regional organisations of councils and area integration models the best models for council cooperation.

Similarly, had Deloitte Access Economics (2011) bothered to consult the Allan Report (2006) Are Councils Sustainable, then it would have established that in Chapter 10 it examined the question of council size and efficiency which underpinned the case for council mergers. It observed inter alia that amalgamations had been based on ‘the primary rationale that larger councils with larger populations could exhibit greater economic efficiencies’ because bigger councils would exhibit ‘lower administrative costs, smaller unit costs of representation, increased purchasing power, improved utilisation of depots, plant and equipment and draw from a more
diverse funding base’ (Allan Report, 2006, pp. 259/60). The Report (2006, p. 261) noted that uncertainty existed on this claim and it had a ‘sound empirical basis’. It concluded that ‘achieving increased economies of scale and greater efficiencies through forcible amalgamation seems questionable and generally not desirable’.

Had Deloitte Access Economics (2011) chosen to consult the Local Government Association of Queensland (LGAQ) (2006) Size, Shape and Sustainability Inquiry, then it would have established that Chapter 4 of its report considered structural change in Queensland. It proposed four different options: ‘Merger/amalgamation’; ‘significant boundary change’; ‘resource sharing through service agreements’; and ‘resource sharing thorough joint enterprise’. It argued that the benefits from mergers included a ‘sufficient resource base’, a reduction in the ‘total costs of government’, scale economies, lower staff levels, rationalisation of assets, ‘cross-border’ facility and service utilisation, better promotion of economic development, increased political lobbying power, and ‘full-time’ elected representatives. Costs embraced ‘exposure’ to liabilities of other councils, fewer grants, high costs of ‘integrating’ constituent councils, integrating ‘widely differing organisational cultures’, creating ‘differing levels of service in some areas’, and diluting representation. Chapter 4 stressed the importance of the ‘voluntary’ nature of any amalgamation proposal to its ultimate success.

Had Deloitte Access Economics (2011) bothered to consult the Western Australian Local Government Association (WALGA) (2006) Systemic Sustainability Study, then it would have established that Chapter 8 considered council amalgamation as part of the broader range of alternative models. The Report argued that a ‘state/territory’ model and an ‘industry-owned service provider’, which delivered selected services on a regional basis for member councils, were the most promising options. The Report was emphatic on mergers, noting that ‘there was little prospect that forced amalgamations would achieve any lasting community benefit’ on grounds that ‘there is a growing literature and operating experience to this effect elsewhere in Australia’ (WALGA 2006, p. 70). In short, Chapter 8 argued that the main benefits which purportedly derived from amalgamation ‘can be obtained by methods other than enforced structural reform’.
Had Deloitte Access Economics (2011) chosen to consult the PriceWaterhouseCooper (PWC) (2006) *National Financial Sustainability Study of Local Government*, then (as we saw in Chapter 2) it would have established that PWC (2006) drew three main conclusions on structural reform in local government:

- PWC (2006, p. 72) argued that while ‘structural reform through amalgamations is necessary in some instances, each potential amalgamation needs to be assessed carefully to avoid the risk of simply creating large inefficient councils’. It stressed the fact that ‘remote councils’ faced ‘higher cost structures’ largely due to the tyranny of distance, which no amalgamation process could remove.

- PWC (2006, p. 75) concluded that ‘mergers can bring greater financial strength and stability to councils, however, simply merging a number of adjoining unviable councils is unlikely to increase financial sustainability to the stage where there is a single viable council and it may decrease effectiveness and result in greater disputes between councillors based on parochial interests’.

- PWC (2006, p. 149) contended that ‘efficiency, effectiveness and scale’ could be improved through regional service provision, shared service arrangements, outsourcing, state-wide purchasing initiatives, and the like, rather than amalgamation.

Finally, and most importantly had Deloitte Access Economics (2011) taken the trouble to consult the LGAT (2007) *Review of the Financial Sustainability of Local Government in Tasmania*, then it would have become aware of LGAT’s (2007, p. 65) argument that forced amalgamations were unlikely to achieve ‘lasting community benefit’. Moreover, while small councils often ‘lack administrative and technical capacity compared with larger councils’ and ‘council amalgamations will generate a greater range of services and improved quality of service’, the ‘main benefits of amalgamation can usually be obtained by methods other than enforced structural reform’, mostly ‘resource sharing and pool-style arrangements’. Following WALGA
it recommended that Tasmanian local government should investigate (a) a ‘state/territory’ model comprising a ‘two-tier local and regional government’ and (b) ‘sector-owned service providers’. It should be noted that it is more than a little ironical that Deloitte Access Economics (2011) did not consult Review of the Financial Sustainability of Local Government in Tasmania since this document was prepared by Access Economics!

7.3 EVALUATION OF DELOITTE ACCESS ECONOMICS (2011) MODELLING

In Chapter 4 of its Report, Deloitte Access Economics (2011) considered the empirical question of whether there exists a statistically significant correlation between population size and per capita costs, with population size heroically assumed to accurately proxy local council size and per capita costs somehow assumed to accurately proxy the performance of local councils. Earlier in this Report, as well as in section 7.3.1 of Chapter 7, we demonstrated that population size cannot accurately proxy local council size because of the high degree of heterogeneity in the characteristics of different local government areas. Similarly, per capita costs cannot capture accurately either (a) the performance of local councils or (b) scale economies.

Per capita costs cannot proxy (a) the performance of local councils not only because service composition and service quality vary widely between different councils, but also because different councils face different input cost regimes induced inter alia by remoteness and other factors, an argument conceded by Deloitte Access Economics (2011). Per capita costs cannot capture accurately (b) scale economies since economies of scale deal with the relationship between the average total costs of production and the level of production of a well-defined specific output or service (and not the level of output of an aggregate basket of completely different services and functions). This later problem arises because Deloitte Access Economics (2011, p. 24) erroneously adopts a false definition of scale economies which it defines as follows: ‘The findings of the analysis suggest that the provision of local government services in Tasmania exhibits economies of scale. That is, per-capita operating expenses are lower in larger council’ (original emphasis).

As we demonstrated in section 7.3.1 of Chapter 7, Deloitte Access Economics (2011) should have instead examined statistical correlations between population density and per capita costs of
specific services since population density is a significant determinant of per capita costs (for the intuitively obvious reason that it is generally less expensive to deliver local government services to concentrated masses of residents rather than spatially spread populations). For this reason, when population density and per capita costs are correlated, economists often draw the false conclusion that council size must be the pivotal driver of costs when in fact smaller councils are almost always outside of metropolitan areas and frequently have a high degree of population dispersion.

In section 4.1 of Chapter 4, Deloitte Access Economics (2011) confronts several ‘inconvenient facts’ which further subvert its approach. For example, Table 4.1 demonstrates that by far the lowest per capita costs in all Tasmanian local government are found in the small Brighton Council at $686 (i.e. almost half the $1,171 found at Launceston, Tasmania’s largest council by population size)! This gives Deloitte Access Economics (2011, p. 24) sufficient pause to reflect that ‘while this provides insight into the potential gains from further structural reform, the relatively small maximum existing council size, and limited number of relatively large councils, limits insights that can be drawn from this analysis (and confidence limits associated with them)’, adding that its approach ‘does not reveal whether further economies of scale would continue to be generated for council sizes much larger than those of existing “large” Tasmanian councils’.

Similarly, in section 4.1.2 Deloitte Access Economics (2011, p. 25/26) produces Table 4.2 with per capita operating costs for all Australian local government systems. It is obliged to note that ‘across Australia, the average operating expenses of local government ranges from $15.6m in the Northern Territory to $118m in Queensland. Tasmania sits at the lower end of this spectrum, with an average of $21m’. Moreover, ‘average operating expenses per capita vary from $1,360 (Victoria) to $7,561 (Queensland)’, with Tasmania at $1,527 per capita ‘at the lower end’, thereby conceding that ‘despite the small average size, average per-capita expenses by councils in Tasmania are relatively low’.

Deloitte Access Economics (2011, p. 25/26) is then forced to employ exactly those factors proposed in this Report to explain this anomaly: ‘While an in-depth analysis of the factors
underlying this finding has not been conducted, it likely reflects a variety of factors that impact on operating costs—perhaps most significantly, differences in wage and salary costs (which account for a significant proportion (in the order of 30-40%) of council budgets)!

A further ‘reality check’ confronting Deloitte Access Economics (2011, p. 26) derives from its own rather odd regression analysis of council population and aggregate per capita costs for all Australian local government systems. While highly aggregated data of this kind will not provide meaningful results for the reasons listed above, as well as the fact that different state local government systems often deliver different services, such as water and wastewater in non-metropolitan NSW, the ‘scholastic’ statistical exercise in any event shows that while ‘a 1% increase in LGA size (measured in terms of resident population) is associated with a 0.34% decrease in per-capita operating expenses’, this is only true for ‘councils up to the size of around 100,000 people’. In other words, ‘beyond this size, returns to scale are broadly constant’ or ‘per-capita expenditure remains largely unchanged’. This has obvious adverse consequences for the Deloitte Access Economics (2011) analysis of a hypothetical ‘Southern Council’ with a population of 250,000 people conducted in section 4.3.1 of Deloitte Access Economics (2011).

Further problems arise for the central hypothesis of Deloitte Access Economics (2011) that ‘bigger is cheaper’ in Tasmanian local government when it attempts to decompose local government expenditure into its constituent functional areas. To its credit, Deloitte Access Economics (2011, p. 29) is candid about at least some of these difficulties. It observed that ‘in a high-level analysis of this nature, identifying the extent of economies of scale with precision is limited by the detail in the available data’, acknowledging that ‘greater rigour could be achieved with more granular information’.

Table 4.3 depicts decomposed operating expenditure by council function for all Tasmanian councils in an effort to determine the ‘potential for economies of scale in each major function’, which Deloitte Access Economics (2011, p. 29) concedes is ‘imprecise’ and thus ‘not intended as a definitive assessment, but rather an illustration.’
These caveats unfortunately are almost immediately forgotten by the authors, as even a cursory glance at Table 4.3 (p. 28) illustrates. Table 4.3 is reproduced below as Table 7.1:

**Table 7.1: Reproduction of Table 4.3 ‘Tasmanian council expenditure by purpose’**

<table>
<thead>
<tr>
<th>Purpose of expenditure</th>
<th>Proportion of total expenditure (%)</th>
<th>Potential for economies</th>
<th>Approximate scale of saving (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Administration</td>
<td>18</td>
<td>High</td>
<td>30 to 45</td>
</tr>
<tr>
<td>Education Health</td>
<td>5</td>
<td>Low</td>
<td>5 to 10</td>
</tr>
<tr>
<td>Housing and Welfare</td>
<td>5</td>
<td>Low</td>
<td>5 to 10</td>
</tr>
<tr>
<td>Law Order and Public Safety</td>
<td>1</td>
<td>Low - Moderate</td>
<td>5 to 30</td>
</tr>
<tr>
<td>Planning and Community Amenities</td>
<td>9</td>
<td>Low – Moderate</td>
<td>5 to 30</td>
</tr>
<tr>
<td>Waste Management and the Environment</td>
<td>13</td>
<td>Low – Moderate</td>
<td>5 to 30</td>
</tr>
<tr>
<td>Recreation and Culture</td>
<td>16</td>
<td>Low – Moderate</td>
<td>5 to 30</td>
</tr>
<tr>
<td>Other non-roads</td>
<td>7</td>
<td>Unknown</td>
<td>n/a</td>
</tr>
<tr>
<td>Roads</td>
<td>31</td>
<td>Low</td>
<td>5 to 10</td>
</tr>
</tbody>
</table>

It should be stressed that the sources of ‘approximate scale of saving (%)’ derive from Appendix A which contains only six purported ‘studies’, most of which are simply consultant reports. Moreover, by far the most important local council outlay resides in ‘roads’ for which the Tasmanian average is given as 31%. Quite apart from the well-known fact that in small rural local authorities this radically understates the spend on roads, it also means that around a third of local government expenditure offers negligible scale economies, even on Deloitte Access Economics (2011) average figures.

These considerations place in question the veracity of the subsequent findings of this statistical exercise. Despite its own misgivings, Deloitte Access Economics (2011, p. 28) feels able to claim that ‘nevertheless, the findings of these reviews, together with the current structure and characteristics of councils in Tasmania, suggest that the gains from local government structural reform in the state are likely to be at the upper end of those observed in previous studies’, stressing that ‘with these considerations in mind, it is concluded based on past experiences that efficiency gains in the order of 10% to 20% are potentially achievable from effective local government structural reform in Tasmania’ (original emphasis).
The final element in the Deloitte Access Economics (2011, p. 29) regression analysis consists of an attempt to assess the ‘benefits that could potentially be achieved from further structural reform in Tasmania’, more specifically the case of the 12 Southern Tasmania local councils ‘amalgamated into a single “Southern Council” to illustrate the magnitude of the potential efficiency gains’. In this regard, a ‘hypothetical “Southern Council” would see the consolidation of 12 councils into a single council with a population of 250,000, aggregate operating expenditure (excluding efficiency gains) of $313 million and operating expenditure per capita (excluding efficiency gains) of $1,255’.

Once again, Deloitte Access Economics (2011) employs fatally flawed and simplistic correlations of population size with per capita costs to arrive at estimates. Nonetheless, it still asserts that ‘it is estimated that combining these 12 councils into a single local government would yield an efficiency gain of up to 35% - or, based on current figures, a saving of up to $110 million’ (original emphasis), adding that ‘the modelling suggests that these gains would be primarily achieved up to a population size of 120,000; beyond this, the returns to scale are minimal (but equally, there is no evidence of “diseconomies of scale”)’.

In what seems like an attempt to shield itself from attack along the lines presented in the Chapter 7 of this Report, Deloitte Access Economics (2011, p. 30) did note that:

[T]hese results – by their stylised nature – should be considered an initial assessment of the potential benefits of structural reform in Tasmania. While the econometric analysis underpinning the findings is considered robust, there are, nevertheless, a range of simplifying assumptions that have been made (refer to Appendix B for greater detail in this regard). Moreover, the economic benefits of structural reform hinge heavily on the precise design specifications; hence a more detailed modelling exercise should be conducted should reform deliberations be further advanced.

Readers who refer to Appendix B will be disappointed at the minimal detail made available. Readers will also recall that this decidedly shaky finding was heralded by Deloitte Access
Economics (2011, p. 30) as a ‘key finding’ expressed as structural reform of councils in Tasmania could allow for efficiency gains of up to 35% if appropriately conceived and effectively managed’, without a hint of qualification! To gain further insight into the econometric analysis conducted by Deloitte Access Economics, we replicated their findings using the data contained in their report. Our findings, which exactly mirror the findings contained in Appendix B of the Deloitte Access Economics report, are presented below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estimate</th>
<th>Standard Error</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>9.808712</td>
<td>.9997208</td>
<td>9.81</td>
<td>0.000</td>
</tr>
<tr>
<td>Log(pop)</td>
<td>-3.3090109</td>
<td>.0620799</td>
<td>-4.98</td>
<td>0.000</td>
</tr>
<tr>
<td>Log(roads)</td>
<td>.0450163</td>
<td>.1390549</td>
<td>0.32</td>
<td>0.749</td>
</tr>
</tbody>
</table>

The following principal criticisms can be levelled at this rather simple analysis:

- The analysis does not disentangle the relationship between population size and population density. A simple correlation between population size and population density indicates that there is a relatively strong positive correlation between these two factors (i.e., the correlation coefficient = 0.62). Thus, there is prima facie evidence of the need to separate out the effect of density; and

- The analysis does not control for effects of other possible confounding variables such as population growth, percentage identifying as ATSI, hectares of agricultural land, average income, percentage unemployed, number of single parents, and number of aged pensioners.

In simple terms, the results produced by Deloitte Access Economics need to be treated with caution and further empirical research is warranted to address these criticisms.
7.5 ASSESSMENT OF ‘BROADER BENEFITS’ IN DELOITTE ACCESS ECONOMICS (2011)


Chapter 2 and Chapter 3 of the present Report conducted thorough examinations of the evidence on structural reform through amalgamation and the findings of the various public inquiries on the efficacy of amalgamation. With respect to the five elements proposed in Deloitte Access Economics (2011), we demonstrated the following:

Local government ‘capacity and capability’: Available evidence suggested that amalgamation improved local government ‘capacity and capability’ in small non-metropolitan councils which typically struggled to secure skilled people. However, in metropolitan settings the same level of improvement did not flow from amalgamation. Since the thrust of the Deloitte Access Economics (2011) Report is on large urban concentrations, ‘capacity and capability’ benefits will accordingly be modest.

Improved ‘fiscal management’ and financial sustainability: As we saw in Chapter 3 of the present Report that all of the public inquiries found that amalgamation was not an efficacious method of improving local council performance. Moreover, unanimous agreement existed that financial sustainability did not improve after amalgamation. This latter observation is conceded in full by Deloitte Access Economics (2011, p. 33) which noted that the ‘analyses [i.e. public inquiries] in relation to these issues provide mixed findings as to the success of previous structural reform in improving financial sustainability’. It thus appears that even Deloitte Access Economics (2011) does not anticipate an improvement in financial sustainability after amalgamation!
**Better strategic ‘coordination benefits’**: Deloitte Access Economics (2011, p. 33/34) contends that ‘larger councils also provide greater opportunities for strategic coordination and for the realisation of the wider economic gains that potentially stem from this’, which ‘could include activity to promote local economic development by encouraging new businesses and development and better supporting existing businesses’, citing the example of tourism marketing. It also claimed that ‘coordination across regions allows for a more consistent and more integrated campaign to be executed’ and ‘resources can be pooled’. However, in common with the Munro Report examined in Chapter 6, it failed to point out that these benefits do not require amalgamation. For instance, in the greater Hobart region, a strengthened STCA could perform the same functions.

**‘Impacts on representation and responsiveness’**: Deloitte Access Economics (2011, p. 33) recognises the common fear that ‘structural reform can dilute local representation and opposition to structural reform can arise because of community concerns that they may result in elected representation outcomes that is not balanced and reflective of the diverse localities and community character that may exist within an area proposed for structural reform’. Furthermore, it correctly pointed out that ‘there are mechanisms that can be utilised to mitigate these concerns’, such as ‘ward electoral boundaries could be established that ensure balanced representation from different parts of the new council’s area’.

**7.6 ‘SUCCESSFUL IMPLEMENTATION’ OF AMALGAMATION PLANS**

In section 6.21 and 6.2 of Chapter 6, Deloitte Access Economics (2011, p. 35/37) considers the factors essential for successful amalgamations. These include ‘justifying the case for change’, ‘optimizing the reform parameters’ (i.e. securing the optimal boundaries with appropriate population size, community of interest, etc.) and the thorny question of whether amalgamation should be ‘compulsory or voluntary’. In general, the discussion is presented in terms of the advantages and disadvantages of various aspects of these factors, without Deloitte Access Economics (2011) expressing any firm opinion. However, a disappointing aspect of the discussion is its neglect of the critical nature of ‘community of interest’.
7.7 CONCLUDING REMARKS

Chapter 7 has provided a detailed analysis of the Deloitte Access Economics (2011) Report. Numerous problems were identified, including a neglect of the empirical literature on performance appraisal in local government. However, the most damaging flaw in the Deloitte Access Economics (2011) Report lay in its empirical modelling, which was fatally compromised by its use of population size rather than population density in its statistical estimations. As a consequence, the estimated cost savings projected after an amalgamation cannot be taken seriously.
CHAPTER 8: ALTERNATIVE REFORM OPTIONS FOR NTD COUNCILS

8.1 INTRODUCTION

This Report has attempted to provide the NTD group of councils with a comparative, readily accessible, yet comprehensive, account of the major problems confronting all Australian local government jurisdictions, including Tasmanian local government, together with the perspectives from the academic literature and the host of recent public inquiries into the nature of these problems. The Report has also sought to provide a balanced and complete synopsis of the various policy solutions which have been proposed. Given the strident campaign in Tasmania aimed at widespread local government amalgamation, focus in the Report has naturally fallen on the efficacy of structural reform, and especially ‘top-down’ forced amalgamation, as a means of ameliorating the problems facing Tasmanian local government.

The Report has examined a range of different of structural models of local government potentially applicable to Tasmanian circumstances, it has evaluated amalgamation, boundary changes, shared services and other forms of council collaboration as methods of improving the efficiency, effectiveness and financial sustainability of local government. In common with the consensus found in the national and state inquiries into local government sustainability, it has concluded that forced mergers have not met expectations and shared services represent a superior means of reaping scale economies, scope economies, and other benefits which may flow from greater volumes of service provision.

The Report has provided a detailed discussion of the available Australian and international empirical evidence on both scale economies in local government and shared services in local government in order to inform assessment of claims made on the effects of larger scale in local government service provision. In order to give some idea as to how alternative approaches to structural change work in practice, the Report has also provided synoptic ‘case studies’ of successful and unsuccessful council amalgamation, boundary changes, and shared service entities. While the evidence shows that scale and scope economies do exist in municipal
functions and services, these are concentrated in comparatively few services, which are mostly
capital intensive. In a similar vein, although shared services are generally preferable to forced
amalgamation, available empirical evidence demonstrates that they are not a ‘silver bullet’ which
can cure all the ills of local government. Indeed, funding constraints and a large local
infrastructure backlog necessarily imply that more funding be made available to local
government, in the form of additional ‘own-source’ revenue, greater inter-governmental
transfers, and more borrowing.

This Report has provided detailed critiques of two major Tasmanian reports which have
recommended radical local government mergers: The Southern Tasmania Council Association
(STCA) sponsored Independent Review of Structures for Local Governance & Service Delivery
in Southern Tasmania (‘Munro Report’) and the Property Council sponsored Deloitte Access
Economics Local Government Structural Reform in Tasmania. It found that the Munro Report
had made a series of recommendations, only some of which involved structural reform aimed at
a Greater Hobart Council through compulsory amalgamation, almost entirely on a ‘fact-free’
basis. As a consequence, its recommendations did not provide a sound basis for public policy. By
contrast, while the Deloitte Access Economics Local Government Structural Reform in
Tasmania had at least consulted some of the relevant scholarly literature and the wealth of public
inquiry reports, its empirical analysis was fatally flawed through exclusive reliance on average
per capita costs, population size as a proxy for council size, and a small sample.

Against this evidential background, the Report now considers the various structural change
options which could be adopted by the NTD group of councils. Discussion is divided into three
main parts. Section 8.2 provides a synopsis of hypothetical models which any group of councils
contemplating structural reform could consider, ranging from the maintenance of the status quo
through to compulsory amalgamation, and offers opinion on which of these might be suitable for
the NTD group of councils. From this all-inclusive array of theoretical models, section 8.3 sets
out a recommended approach for the NTD group of councils. Chapter 8 ends with some brief
concluding remarks focused on the NTD group seizing the initiative to decide its own future.
8.2 POSSIBLE STRUCTURAL MODELS

As we saw in Chapter 3, in their typology of structural models applicable to the narrow range of ‘services to property’ typical of Australian local government, Dollery and Johnson (2005) identified seven alternative structural models arranged according to the degrees to which political and operational control can be centralized or decentralized between local councils and any new organizational entity they form. In this taxonomy, the degree of centralization indicates the concentration of control vested in the new governance structure (as opposed to the original councils which comprise the new arrangement). In contrast, operational control refers to the ability to administer/deliver local services, whereas political control focuses on the capacity to make decisions over the quality/mix of local services.

The applicability and feasibility of the models in the Dollery and Johnson (2005) system can be assessed as follows:

Existing Councils Remain Unchanged

In the Dollery and Johnson (2005) typology, the first option represents maintenance of the status quo in the form of existing local councils acting entirely independently. In the NTD case, since resource sharing and shared service arrangements already exist, this model does not represent the status quo in any event. Even if it did, short of implicitly claiming that improvement in council performance was not possible, it would be difficult to justify ignoring any effort at progress.

Assessment: In the NTD case, since resource sharing and shared service arrangements already exist, this model does not represent the status quo in any event. Even if it did, short of implicitly claiming that improvement in council performance was not possible, it would be difficult to justify ignoring any effort at progress. It is thus concluded that simply striving to maintain the status quo is neither a suitable nor viable policy objective for NTD councils.
Ad hoc Resource Sharing Models

The most limited and flexible alternative option resides in voluntary arrangements between councils to share resources on an *ad hoc* basis whenever and wherever the perceived need arises. As we saw in Chapter 3, resource sharing of this kind includes a wide range of possibilities, including specialised skills, such as town planners, plant and equipment, like earth-moving machinery and IT, administrative services, such as ‘back-office’ services and rates notices, and operational services, like domestic garbage removal and disposal. NTD councils already engage in *ad hoc* shared services. The *ad hoc* resource sharing model has several advantages, not least inherent flexibility which means it can be widely applied as and when the need arises, it does not compromise the independence of participating councils, and it can be readily terminated. NTD councils already engage in *ad hoc* shared services and thus to a degree this model represents the status quo.

**Assessment:** Resource sharing and shared service arrangements already exist amongst NTD councils. Given the high degree of heterogeneity amongst NTD councils, this provides excellent real-world evidence of the fact that they can cooperate effectively, despite their diversity.

However, it is argued that several steps should be taken by NTD councils:

- While the existence of these collaborative arrangements has obviously provided invaluable ‘hands-on’ experience for participating councils, it is suggested that, in the first instance, it is important to undertake a detailed audit of these arrangements to evaluate their performance and to take steps to improve performance, where necessary.

- A second suggested step is to conduct a survey of all mayors and CEOs on which additional resource sharing and shared service arrangements they think could be profitably pursued. A useful instrument designed specifically for this purpose that has worked well with other groups of councils is included in Appendix 8A to this Report.

A degree of caution is necessary. Empirical evidence taken from the evaluation of case studies of shared service arrangements in Australian local government has indicated that:
(a) Whereas the cost savings and other advantages derived from these arrangements can be considerable, they are not so substantial as to cure all the ills of contemporary local government. (b) It is important to ensure that councils entering into shared service arrangements undertake to stick with these arrangements for an agreed initial time period in order to prevent disruptive premature existing (when elected councillors change or CEOs are replaced, etc.).

Regional Organizations of Councils

In the Dollery and Johnson (2005) system, Regional Organizations of Councils (ROCs) represent voluntary groupings of spatially adjacent councils, usually consisting of between five and fifteen councils, with considerable variety in geographic size and population, and typically financed by a set fee from each member council or a pro rata contribution. ROCs are usually governed by a board consisting of members from constituent councils, normally the mayor and general manager, sometimes supported by an administrative structure. The ROC model has several variants, most commonly Alliance Models. As we saw in Chapter 3, Alliance Models can encourage the exchange of common concerns, engender a common destiny, foster common policies, facilitate the coordination/rationalisation of member council activity, promote resource sharing and collaborative ventures, as well as act as regional lobbying groups with state and Commonwealth governments. NTD councils already engage in a ROC-type model in the form of the NTD itself, as well as ad hoc shared service arrangements, and thus to a degree this model represents the status quo more accurately than the ad hoc resource sharing model.

Assessment: The NTD is already a ROC-style organisation performing many of the functions undertaken by ROCs and Alliances across Australia. Moreover, it has effective governance arrangements as well as an efficient administrative structure. It is thus well-placed to take on additional shared service and resource sharing arrangements in its own right.

It seems widely acknowledged that Northern Tasmania faces difficult economic and social challenges in the years ahead. While local government represents only a partial potential solution to these problems, which will require Commonwealth and state government intervention, it can nevertheless play a pivotal role. A key ingredient of this role will be to foster cohesive region-
wide policymaking to stimulate economic growth and promote regional development. A second crucial contribution lies in effective networking with Australian and Tasmanian government agencies, business groups and individual corporations.

An expanded and strengthened NTD would appear to represent the best way of achieving these objectives. It is thus recommended that NTD councils explore this option. A useful way of proceeding would be to consider similar entities in other regional areas, such as the Geelong Region Alliance (G21), the *Townsville Futures Plan* in North Queensland, and entities in other parts of Australia.

**Area Integration Models**

Area integration models are based on the preservation of existing local councils and current municipal boundaries, but with a shared administration and operational system overseen by a joint board of elected councillors from each of the member municipalities. Member councils retain their political independence, thus preserving existing local democracy, whilst simultaneously merging their administrative staff and resources into the single enlarged administration. They decide on service levels, where applicable, and can negotiate charges accordingly. The basic idea underlying area integration models resides in the possibility that it will enable member councils to reap any scale economies, scope economies, or other benefits that may flow from a bigger administration.

As we saw in Chapter 3, area integration models rest on two crucial assumptions. Firstly, small councils usually facilitate effective representation, but may not use resources efficiently. Secondly, large councils diminish effective democratic representation, but operate comparatively more effectively. In contrast to amalgamation, the area integration model seeks to ‘break’ the ostensible trade-off between democracy and efficiency by retaining the desirable democratic nature of small councils while securing the benefits of operational size.

Other advantages credited to area integration models include ‘increased accountability, public scrutiny and citizen involvement’; ready access to elected representatives; the separation of
policy decision making from policy execution; realization of scale and scope economies; social cohesion deriving from small constituent communities; a ‘balance between the social and economic dimensions of municipal governance’; a higher degree of ‘policy coherence’ over a larger spatial area; greater regional participation; a ‘respect for history of communities and preservation of sense of place’; and no pooling of reserves and/or accumulated debts between member councils (Thornton, 1995). Moreover, under the area integration model, every member council would continue to enjoy full autonomy; ‘it would have the power to determine its range of works and services, and to determine its financial plans to provide the necessary funding’ (Shires Association of NSW, 2004, p. 7).

Area integration models have obvious shortcomings, such as greater organizational complexity, potentially irreconcilable demands by different member councils, as well as demarcation problems between an area integration entity and local councils.

The establishment of an area integration model for the 8 NTD councils would represent a radical structural reform, which would require rigorous justification. A priori the prospects of success for a NTD area integration model do not look promising on several grounds. Firstly, the NTD spatial area is comparatively large, posing obvious and costly ‘tyranny of distance’ challenges to a shared administrative structure which delivers services. Secondly, significant size, ‘community of interest’ and other differences exist between NTD member councils, which increase the potential for irreconcilable needs between constituent councils.

**Assessment:** The establishment of an area integration model for the eight NTD councils would represent a radical structural reform, which would require rigorous justification. A priori the prospects of success for a NTD area integration model do not look promising on several grounds:

- The NTD spatial area is comparatively large, posing obvious and costly ‘tyranny of distance’ challenges to a shared administrative structure which delivers services.
- Given the high degree of heterogeneity evident in the NTD group of councils, with significant size, ‘community of interest’ and other differences between its local authorities, it would be difficult to reconcile the competing needs of constituent councils.
• An area integration structure would necessitate the establishment of a single headquarters and an attendant concentration of the workforce in a given town which would obviously have negative economic and social consequences for the other seven centres. For these and other reasons, it is argued that an area integration model is inadvisable.

Virtual Local Governments

As we saw in Chapter 3, the virtual local government model rests on two assumptions:

(a) Comparatively small councils with low populations and councillor/resident ratios yield better decision-making units in terms of the appropriateness and effectiveness of service provision since they are “closer to the people”.

(b) Service provision can be separated from service production making it possible to remove trade-offs between council size and council efficiency. As Percy Allan (2003, p. 27) observed ‘if cost efficiency improves for some tasks, but policy appropriateness and service effectiveness deteriorates the bigger a municipality becomes, then an obvious solution is to separate council decision making from council administration’.

A virtual council would thus consist of two main elements: (i) existing small councils would comprise the elected councillors and a small permanent secretariat to decide on questions of policy formulation and monitor service delivery to determine its effectiveness. Virtual councils in the NTD group would share a common administrative structure or ‘shared service centre’ to provide the necessary administrative capacity to undertake the policies decided upon by individual councils. (ii) Service delivery itself would be contracted out either to private companies or to the shared service centre depending on the relative costs of service provision and the feasibility of using private firms.
Virtual local government has much in common with the area integration model, with the chief
difference perhaps residing in the outsourcing of actual service delivery in the former case.
Moreover, it would also obviously involve radical structural change, which would include
negative employment and economic repercussions in small communities where the local council
is a major employer. To implement this model for NTD councils would thus require painstaking
justification on both equity and efficiency grounds.

**Assessment:** The establishment of a virtual local government for the NTD region would be even
more disruptive than an area integration model since a virtual structure for the NTD group of
councils would *inter alia* involve extensive outsourcing of most local government functions.
Quite apart from the negative employment and economic repercussions referred to above, it is
questionable whether adequate and reliable administrative and technical skills could be acquired
through market processes at reasonable prices over the long term. It is thus recommended that
the virtual local government option be discarded.

**Agency Models**

Under existing Local Government Acts, state governments possess immense power over local
councils, including the authority to sack councils. In this sense, local authorities are (to a degree)
service delivery agencies for state governments, which possess autonomy over a defined range of
functions, provided they carry out these responsibilities adequately. As we saw in Chapter 3, we
can conceive of councils as bearing a principal/agent relationship to state governments, charged
with delivering services ‘on behalf’ of state governments in an efficient manner. For example,
along analogous lines, in NSW area health boards are elected bodies which oversee the
administration of state-financed health services, without producing the services directly
themselves. This conception of the role of local councils is termed the ‘agency model’.

Under an agency model, local authorities surrender completely operational control of the
services they direct, but at the same time still enjoy political autonomy as elected bodies for a
spatially defined jurisdiction. All service functions would be run by state government agencies
with state government funds and state government employees in the same way as state police
forces presently operate. Councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions. For instance, domestic waste removal and disposal would be conducted and managed by a state garbage agency, but the actual frequency of garbage removals would be determined by democratically elected councils. With a predetermined ‘global budget’ for a given council area, individual local governments could express the preferences of their voters in determining the mix of services.

The agency model has never operated in Australian local government, although models resembling it have been employed in some unincorporated areas and the Northern Territory. An agency model system would obviously require state government willingness to participate, not obvious in any Australian local government system, including Tasmania. Furthermore, it would represent extremely radical structural re-organisation, probably a ‘bridge too far’ for the NTD or any other group of councils.

Assessment: The agency model has never operated in Australian local government, although models resembling it have been employed in some unincorporated areas and the Northern Territory. An agency model system would obviously require state government willingness to participate, not presently obvious in any Australian local government system, including Tasmania. Furthermore, it would represent extremely radical structural re-organisation, probably a ‘bridge too far’ for the NTD or any other group of councils. For these reasons, it is not a feasible option for the NTD group.

An Amalgamated Large ‘Northern Council’

A single amalgamated Northern Tasmania Council would represent the polar opposite of the status quo in the form of existing local councils and it would approximate a northern version of the ‘Southern Council’ proposed by Deloitte Access Economics (2011). Under this model, current NTD councils would surrender completely all political autonomy and operational control to the new entity and simply cease to exist. As we have argued in this Report, in Australia and other advanced countries forced mergers are a highly controversial form of structural change, with a mixed record of achievement. Chapter 2 demonstrated that in the host of recent national
and state public inquiries, a consensus existed which held that amalgamation had not met expectations and shared services represented a superior method of securing the benefits of scale. This conclusion was in accord with the Australian and international academic literature on structural reform (Dollery and Robotti, 2008). From the point of view of the NTD councils, especially given the high degree of heterogeneity amongst its member municipalities, and their distinctive communities of interest, it is thus difficult to present a strong ex ante case that unconditional amalgamation would prove successful.

An additional consideration, derived from the case study material in Chapter 5 of this Report, lies in the fact that, for a given amalgamation to succeed, and not generate lasting conflict and division, it is important for all affected local authorities to be willing volunteers. Bearing in mind the substantial differences between the NTD councils, it is a moot point whether unanimity could be achieved on unconditional amalgamation.

A consideration often neglected in the assessment of amalgamation as an instrument of structural reform is to distinguish between amalgamation in a purely urban context and amalgamation in a regional context. As we have seen in Chapter 2 and Chapter 3 of this Report, forced amalgamation as a generic tool of structural reform has typically not met expectations. Moreover, quite apart from its failure to achieve cost savings and other performance targets, it has tended to leave a lasting legacy of bitterness and division in affected local communities. These consequences are hardly surprising considering the fact that, in contexts where forced mergers have sought to combine urban, peri-urban and rural councils, significantly different ‘communities of interest’ are compulsorily consolidated. However, if we consider amalgamation in purely urban circumstances, especially contiguous suburban areas, there is likely to be very little difference in ‘community of interest’ and little social connection or sense of ‘community identity’ attached to local councils. Accordingly, with much of the discord abated, and trivial ‘tyranny of distance’, purely urban amalgamation has a much greater prospect of success. However, given the nature of NTD councils, and with the exception of some urban areas of predominantly rural local government areas, which could in any event be tackled through boundary changes, these considerations have little practical relevance to NTD councils.
**Assessment:** The ‘unconditional’ amalgamation of all NTD councils into a single undifferentiated local government entity is problematic for a number of reasons, including:

- The weight of evidence suggests that, especially in non-metropolitan settings, amalgamation is not suitable for constellations of councils characterised by a high degree of heterogeneity in terms of population size, spatial area, community of interest, and other factors.  
- It is highly likely that most NTD councils and their local communities would actively oppose any planned amalgamation and the process would thus be bitter and divisive.  
- The NTD geographical area is too large for a single local authority to operate efficiently.  
- The direct and indirect costs associated with establishing a single council would be prohibitive.  
- Legitimate concerns would exist over the continuity of local democracy for small communities.  

It is thus argued that unconditional amalgamation is not a suitable policy option.

While the Dollery and Johnson (2005) taxonomy provides a useful tool in terms of presenting an array of possible models, it is not all encompassing. Several other possibilities require consideration in the specific case of the NTD group of councils. In particular, we should consider:

- A ‘sustainable amalgamation’ or ‘conditional amalgamation’ model as proposed by Dollery, Goode and Grant (2010), which provides for voluntary mergers, subject to conditions agreed by participating councils.

- Boundary changes of either a voluntary or state-imposed nature.

**Conditional Amalgamation**

Chapter 3 discussed municipal amalgamation in some depth, examining available Australian and international evidence. It was observed that almost all Australian episodes of council amalgamation represented ‘top-down’ state government coercion in the form of forced mergers which simply annulled existing councils and established new, larger local government entities. In
general, the results of this heavy-handed approach have been unhappy, a point agreed in the recent spate of national and state inquiries examined in Chapter 2.

Although both the Local Government Association of Queensland (2005) typology and the more finely calibrated Dollery and Johnson (2005) taxonomy, examined in Chapter 3, represent useful tools for scholars and practitioners alike, they conceptualise amalgamation as a single undifferentiated model of local government reform aimed exclusively at achieving local efficiency gains and local service provision improvements without consideration of the broader economic and social costs on the affected local communities. However, Dollery, Goode and Grant (2010) have designed an alternative approach in the form of voluntary mergers with pre-conditions approved by all participating councils prior to amalgamation.

Under an unconditional amalgamation model, at the very least the following steps would be implemented: A new CEO appointed for the new entity; a reduction in other management positions; a decrease in both office and outdoor employment in line with removing duplication; plant rationalisations; a single town selected as the major administrative and service centre for the new council, with the closure of the other council chambers, maintenance workshops, etc; and the adoption of a ‘best-fit’ approach for remuneration levels across the new entity.

At the representative level, typically fewer councillors result mostly drawn from the major centre (in the absence of wards). Any short-term cost savings from an unconditional amalgamation are thus premised on improving efficiency without considering any impact on broader community sustainability. However, to achieve this, not only will direct council employment have to fall, but a reduced emphasis on local community choice in both local service mix and local service standards are required. In addition, we must incorporate the negative impact on local communities of a loss of local employment, reduced local economic activity, depletion in local volunteer ranks and sport teams, and the absence of a local council presence, etc. Over the longer term, these adverse impacts would be compounded through negative dynamic regional multiplier effects. In particular, the unconditional amalgamation option would have its administrative headquarters in a single town, which would mean that the other towns would be denuded of current levels of local employment and associated local expenditure. This would set in train a
disastrous negative multiplier process which would severely damage local communities by destroying the local economy.

By contrast, a model of amalgamation could be designed which served to protect local community sustainability by ensuring the continuation of local shire employment and local shire expenditure in each member shire of the new entity. This model is best described as the sustainable amalgamation model. In essence, a sustainable amalgamation approach would attempt to incorporate and balance the ‘four pillars of sustainability’: Financial sustainability; economic sustainability; community sustainability; and environmental sustainability. In other words, the sustainable amalgamation model places emphasis not only on efficiency and financial savings, but on local community outcomes.

How would a sustainable amalgamation differ from unconditional amalgamation? Given the weight it accords community sustainability, at least the following measures would be adopted in the new organisation: A single new CEO for the new entity; a reduction in other management positions; a reduction in administrative positions (with the minimum safeguard of no more than, say, a 15% decrease in staff in any one existing town); plant rationalisations; retention of the four current administrative centres and the adoption of a shared services model operating for the new shire; and a ‘best-fit’ approach to unified pay levels. It is thus evident that whereas a sustainable amalgamation model would share several common characteristics with an unconditional amalgamation option, it also differs in numerous critical respects.

An additional feature of the sustainable amalgamation model, designed to allay a common fear, frequently attendant upon amalgamation in country areas, that reserve funds accumulated over the years by the constituent local councils would simply be ‘swallowed’ by the new entity, would be to stipulate that reserve funds must be utilized for the purposes for which they were originally established and therefore expended within the district in which they were raised. This might involve establishing a Community Trust which can accept and manage any funds on behalf of a designated local community, as well as accepting funds from industry for designated community projects.
Perhaps the most distinctive attribute of the sustainable amalgamation model resides in its attempt to address the problem of local community sustainability, which is almost always a major concern of all stakeholders in non-metropolitan consolidation programs. As we have seen, a critical aspect of the operation of local government in small rural communities resides in its economic impact and an important dimension of the economic role of local government in country areas consists of the multiplier effect of local expenditure. Accordingly, if this expenditure is reduced or withdrawn, the cumulative outcome is magnified by a negative multiplier effect. By maintaining a substantial council presence in each of the towns, and minimising any job losses, as well as spreading any job losses across each town, the economic impact of structural reform is minimised under the sustainable amalgamation model.

In the event of NTD councils unanimously agreeing to a conditional amalgamation, the exact conditions imposed would be a matter for negotiation between the councils. Should unanimity not be reached, then obviously conditional amalgamation would not proceed.

*Assessment:* Conditional amalgamation requires the consent of affected local authorities. In the event of NTD councils unanimously agreeing to a conditional amalgamation, the exact conditions imposed would be a matter for negotiation between the councils. Should unanimity not be reached, then obviously conditional amalgamation would not proceed. Given that the prospects for universal agreement amongst NTD councils on the need for amalgamation are slim, the thornier question of full agreement on the requisite conditions seems even more remote.

**Boundary Changes**

An additional form of structural change in local government neglected by the Dollery and Johnson (2005) taxonomy can come in the form of boundary changes. Boundary changes can occur in one of two main ways: (a) through voluntary agreement between neighbouring local councils to ‘rationalise’ shared boundaries to mutual advantage and (b) through state-imposed boundary changes with some (or even all) affected councils.

With respect to voluntary boundary changes, in Chapter 5 of this Report we examined the case study of the City of Mount Gambier and the District Council of Grant in South Australia which
underwent substantial voluntary boundary changes. In its analysis, ACELG (2011) found that the results were most amicable, almost entirely due to the fact that Mount Gambier and Grant were in unanimous agreement on the nature of the boundary changes, which they had requested from the South Australian government. Moreover, ACELG (2011) found that the willingness of both councils to work as a genuine partnership was an additional helpful factor in the success of the boundary reform.

By contrast, boundary changes imposed through ‘top-down’ state government policy in opposition to one or more affected councils is an entirely different matter. While unfortunately no Australian case study of involuntary boundary changes exists in the scholarly literature, it can readily be appreciated that boundary changes forced upon unwilling local councils is bound to be seen as a ‘zero-sum game’, with ‘winners’ and ‘losers’. For example, across Australia boundary changes have been imposed in order to ‘consolidate’ urban areas which have been extended by the spread of suburban development into surrounding rural local government areas. In principle, it is often comparatively easy to justify these forced boundary changes on the basis that residents living in new suburban areas immediately adjacent to an existing city or town have a much greater ‘community of interest’ with the people of this city or town rather than with residents of the rural shire. Moreover, residents of these new suburban, or at least peri-urban, developments typically work in the metropolitan area and use its facilities.

However, they also often constitute a significant source of rate revenue to the rural councils concerned. It follows that the transfer of these areas can have deleterious effects on the financial viability of rural councils, which adds to the conflict and division involved. Given the parlous state of many rural local authorities, the financial consequences of forced boundary changes can be damaging. Moreover, residents transferred to urban councils often face rate increases, which results in lasting resentment.

In sum, state-imposed boundary changes forced on unwilling local councils are a recipe for lasting discord. They should thus be avoided if possible.

Assessment: Unanimously agreed boundary changes by all affected councils obviously represent no problem and should be encouraged since all participants believe that their communities will
be better off as a consequence. By contrast, extreme care should be exercised in the case of state-imposed boundary changes forced on unwilling councils.

At least two categories of state-imposed boundary changes exist which should be viewed separately:

- State-imposed boundary changes forced on unwilling councils which are comprised of urban, peri-urban and non-urban components since the associated level heterogeneity places severe limitations on a common community of interest.
- State-imposed boundary changes forced on unwilling local authorities containing segments of a common urban area, such as a regional centre where suburban growth has seen urban development spread over council boundaries into previously rural adjoining local government areas, or ‘doughnut’ councils completely surrounding regional centres and which have their headquarters in the same urban centre.

In the latter cases, the consolidation of urban areas with a strong community of interest can be justified, despite opposition, provided affected rural councils denuded of their urban components are not fatally undermined in terms of financial sustainability. This requires that value judgements be made on a ‘case-by-case’ basis once details of the proposed boundary changes are made clear. *A priori* judgements in these instances obviously cannot be made.

**8.3 RECOMMENDED STRUCTURAL REFORM FOR NTD GROUP**

Northern Tasmania faces significant economic and social challenges in the years ahead, which extend far beyond the capacity of any individual council to effectively tackle alone. This necessarily implies the NTD group of councils should strengthen and extend existing collaborative efforts and adopt a regional approach rather than purely parochial local perspectives.

A concerted effort at regional ‘place-shaping’ is not only required to enhance the natural attributes of the Northern Tasmania region, improve its ‘liveability’ and enhance the wellbeing of its residents, but also to stimulate economic growth, increase the degree of ‘investment hospitality’ and foster regional development. This will involve *inter alia* more cohesive regional integration and regional planning, more closely linked to NTD council policies and procedures,
the creation of a regional development ‘narrative’ together with regional development ‘vision’, and determined and skilled lobbying with the Commonwealth and Tasmanian governments, the RDA network, as well as business groups, investors and corporations.

Although many of the current economic, social and other problems confronting the NTD region are well understood, unforeseeable future developments will bring fresh challenges. Moreover, the role of local government in contemporary Australia is not static but rather evolving into new areas of endeavour. This implies that any structural re-organisation of the NTD group of councils must be capable of a high degree of flexibility to successfully meet future challenges. It follows that structural change should be designed so as to be sufficiently adaptable as to accommodate unknowable future events. Accordingly, flexibility and nimbleness should be essential characteristics of any future governance model selected by the NTD group.

In addition to this principle, at least three other considerations should be borne in mind:

- A common theme not only in section 8.2, but also reflected in other parts of this Report, such as the ‘case studies’ in Chapter 5, was that successful structural reform always appeared to rest on a foundation of willing voluntary agreement of affected local authorities. Thus if unconditional amalgamation, conditional amalgamation, boundary changes and area integration models were considered appropriate by all NTD councils, then they would have to meet the criterion of willing agreement.

- A second common theme, implicit in the discussion in section 8.2, is that (in some cases) two or even more types of structural change are not mutually exclusive. For instance, we saw that ad hoc resource sharing had been combined with the simultaneous existence of a ROC in the case of the NTD. This obviously does not exclude specific agreements between two or even three NTD councils to voluntarily seek boundary changes if these were deemed in their mutual interest.
• A third consideration, perhaps not adequately reflected in the literature on structural change in local government, revolves around the transformation costs contingent upon structural change. As we saw in the case of the Queensland amalgamation process in Chapter 6 of this Report, the direct economic costs derived from radical structural change can be exorbitant. It follows that, unless there is a compelling case to the contrary, structural change should pursue a ‘least-cost’ path.

With these considerations in mind, how should we assess the various structural options in section 8.2? As things stand, the NTD group of councils engage in voluntary ad hoc resource sharing and participate in a cooperative, well-governed and well-managed ROC in the form of the NTD. These arrangements provide a sound and flexible basis for further efforts in both inter-council collaboration and regional integration and regional planning. Moreover, they are already in place and thus do not require potentially expensive re-organisation.

However, continuous improvement would be desirable in at least two directions:

a) A much greater degree of resource-sharing and shared service provision involving most or all NTD councils.

b) Considerable progress toward regional integration and regional planning initiatives

**Strengthening Resource-Sharing and Shared Service Provision in NTD**

Chapter 4 of this Report provided a comprehensive empirical evaluation of the cost savings and performance improvements which could flow from shared service arrangements. While this provides valuable insights into successful shared service arrangements elsewhere, it cannot simply be transplanted into NTD circumstances since local factors can often play a key role. Moreover, willing voluntary participation is an essential ingredient of success.
For these reasons, it is recommended that the NTD survey all CEOs and Mayors of its member councils in order to determine:

i. The extent of existing resource-sharing and shared service arrangements between NTD members and how well they operate.

ii. The views of CEOs and Mayors on other possible resource-sharing and shared service initiatives which offer promise of success.

iii. The desirability or otherwise of establishing an incorporated unit of the NTD to serve as a conduit for resource-sharing and shared service arrangements.

A well-developed survey instrument is provided in Appendix 8A to Chapter 8 which can be used for this purpose. It has previously been successfully applied to other constellations of councils in other Australian state jurisdictions. The results of the survey can then be employed by the NTD Board to plan further resource-sharing and shared service initiatives.

**Strengthening Regional Integration and Regional Planning**

It has been argued that in future the Northern Tasmania region will confront difficult economic and social challenges which will require cohesive collaborative and regional policymaking involving concerted efforts by NTD member councils, particularly to stimulate economic growth and promote regional development. It will also require extensive and sophisticated lobbying of Australian and Tasmanian government agencies, business groups and individual corporations.

Although the NTD already performs many of these functions, room for improvement seems possible, especially in terms of developing an easily digestible and coherent regional narrative for Northern Tasmania. One way of approaching this task is to consult other comparable regional development bodies and examine how they have approached the problem. As mentioned in section 8.2, the NTD could fruitfully examine the Geelong Region Alliance (G21), the *Townsville Futures Plan* in northern Queensland, and other instances of regional collaboration across non-metropolitan Australia.
8.4 CONCLUDING REMARKS

Chapter 8 has set out the range of possible structural reform alternatives the NTD group could adopt and offered some normative comment on the suitability of these models for Northern Tasmanian conditions. It has been argued that, given the high degree of diversity amongst the NTD group of councils, as well as the need for concerted willing and voluntary effort on the part of all member councils, the NTD group should expand substantially resource sharing and shared service arrangements, and investigate the best ways to achieve this objective. It has been suggested that the NTD conduct a survey of all mayors and CEOs on resource sharing and shared service arrangements currently in existence and on which resource sharing and shared service arrangements should be pursued. Appendix 8A contains an instrument designed for this purpose that has worked well with other groups of councils.

Chapter 8 has also argued that the NTD group should concentrate even more on regional advocacy, regional integration, regional development, regional planning and other regional initiatives. One way to achieve more effective regional development is to follow successful models used elsewhere across comparable groups of councils, such as the Geelong Region Alliance (G21), Townsville Enterprise, and the like.

However, the ability of the NTD group to pursue its own objectives, such as enhanced resource sharing and shared service arrangements and more effective regional development, depends on its capacity to determine its own future. This means *inter alia* not having unwanted and undesirable structural reform forced upon it by the Tasmanian government, reacting to the vociferous amalgamation campaign being run by the Tasmanian branch of the Property Council of Australia. It is therefore suggested that the NTD group take further steps to ensure that it retains control of its own fate. In the first place, it is recommended that the NTD make sure that the findings of Chapter 7 of this Report on the Deloitte Access Economics (2011) *Local Government Structural Reform in Tasmania* be widely publicised through the media, including local media. Secondly, it is suggested that NTD member municipalities make their local communities acutely aware of the threat to local autonomy posed by the Property Council of Australia’s forced amalgamation program. Finally, once these steps have been taken, it is
recommended that a survey of local community opinion be undertaken. Appendix 8B provides an example of the type of questionnaire which could be used.
Appendix 8A

Table 8A1: Products and Services Review for Suitability of Shared Services Form

<table>
<thead>
<tr>
<th>Section</th>
<th>Product/Service</th>
<th>High Potential for early success</th>
<th>Suitable for Shared Services? <em>(Mark &quot;E&quot; for existing shared services)</em></th>
<th>How is the service delivery is best performed?</th>
<th>Where should the policy management be controlled?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>High</td>
<td>Med</td>
<td>Low</td>
<td>No</td>
</tr>
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</tbody>
</table>
### Table 8AB: Products and Services Review for Suitability of Shared Services: Example

<table>
<thead>
<tr>
<th>Section</th>
<th>Product/Service</th>
<th>High Potential for early success</th>
<th>Suitable for Shared Services? (Mark &quot;E&quot; for existing shared services)</th>
<th>How is Service Delivery best performed?</th>
<th>Where should Policy Management be controlled?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>High</td>
<td>Med</td>
<td>Low</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Investigations / Prosecutions, non-compliance of Laws, illegal dumping, dog attacks, illegal burning, fire prevention contraventions, parking, barking dogs.</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Dog Pound</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Community Safety</td>
<td>Support FESA / SES / Police emergency management/recovery</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Crime Prevention (CSCP)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Products and Services Review for Suitability of Shared Services - Community Development (2)</td>
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<tr>
<td>------------------------------------------------------------------------------------------------</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide crime prevention advice to residents</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Reporting of maintenance issues</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>Support community based activities and events</td>
<td>X</td>
<td>X</td>
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<td></td>
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<tr>
<td>Community Safety Crime Prevention Plan</td>
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<tr>
<td>Graffiti Strategy and Management</td>
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<tr>
<td>Neighbourhood Watch Program</td>
<td>X</td>
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<td></td>
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</tr>
<tr>
<td>Community based events / workshops on various crime prevention topics (leavers presentations, parents seminars, safety for seniors, CCTV, home security talks, shopping centre displays).</td>
<td>X</td>
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</table>

**Health Services**

<table>
<thead>
<tr>
<th>Food management services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food hygiene controls/audits</td>
</tr>
<tr>
<td>Food sampling program</td>
</tr>
<tr>
<td>Food safety and hygiene education</td>
</tr>
<tr>
<td>Approval of new premises</td>
</tr>
<tr>
<td>Compliance</td>
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### Products and Services Review for Suitability of Shared Services - Community Development (3)

<table>
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<tr>
<th>Service</th>
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<tbody>
<tr>
<td>Noise management</td>
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<td>X</td>
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<tr>
<td>Hazardous materials</td>
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<td></td>
<td></td>
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<td>X</td>
</tr>
<tr>
<td>Monitor contaminated sites</td>
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<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Public building audits</td>
<td>Y</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>Notifiable disease investigations</td>
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<tr>
<td>Disease and pest control</td>
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<tr>
<td>Resident rat bait program</td>
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<td></td>
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<tr>
<td>Midge control/treatment</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>Mosquito management/monitoring</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Public swimming pool audits</td>
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<tr>
<td>Provision and management of facilities for child health clinics</td>
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<td></td>
<td>X</td>
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<tr>
<td>Health promotion services (resource development, program design and delivery)</td>
<td>X</td>
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<td></td>
<td>X</td>
</tr>
<tr>
<td>Approval for black &amp; grey water systems</td>
<td>X</td>
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</table>

<p>| Community Services                           |   | X | X |   |   |
| Home and Community Care                      |   | X | X |   |   |</p>
<table>
<thead>
<tr>
<th>Products and Services Review for Suitability of Shared Services - Community Development (4)</th>
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<tbody>
<tr>
<td><strong>Immunisation (infant)</strong></td>
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<tr>
<td><strong>Library Services</strong></td>
</tr>
<tr>
<td><strong>Library Reference &amp; Information Service</strong></td>
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<tr>
<td><strong>Library Resources</strong></td>
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<tr>
<td><strong>Housebound Library Delivery Service</strong></td>
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<tr>
<td><strong>Regional Library Service</strong></td>
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<tr>
<td><strong>Library - common server and software</strong></td>
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<tr>
<td><strong>Museums &amp; Local History</strong></td>
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<td><strong>Local History Service</strong></td>
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<td><strong>Gallery Exhibitions</strong></td>
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<td><strong>Collections Management - Museums &amp; Local History</strong></td>
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<td><strong>Local Museums</strong></td>
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<td><strong>Community Development</strong></td>
</tr>
<tr>
<td><strong>Community Event Management</strong></td>
</tr>
<tr>
<td><strong>Community Calendar of Festivals and Events</strong></td>
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<td><strong>Events Package to assist community groups with events</strong></td>
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<td>Products and Services Review for Suitability of Shared Services - Community Development (5)</td>
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<tr>
<td><strong>Volunteer Recognition / Information &amp; Referral Service</strong></td>
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<tr>
<td><strong>Coordination of various Youth Programs, Events &amp; forums</strong></td>
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<tr>
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<tr>
<td><strong>Senior Citizen Support and activities</strong></td>
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<tr>
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<td><strong>Publication of Senior Information Directory</strong></td>
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<tr>
<td><strong>Coordinate Aged Services Provider Network</strong></td>
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<tr>
<td><strong>Document and Review Disability Access and Inclusion Plan</strong></td>
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<tr>
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<tr>
<td><strong>Provision of ID Profile (demographic information)</strong></td>
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<td><strong>Aboriginal liaison and information</strong></td>
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<td><strong>Community Development</strong></td>
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REFERENCES


Division of Local Government, Department of Premier and Cabinet (2010). *Snapshot of NSW Local Government; Comparative Information on NSW Local Government Councils 2009/10.*


*Local Government Reform*, DLGPS&R, Brisbane.


