

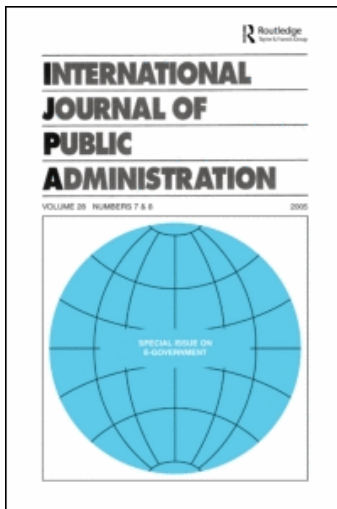
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The Implications of the Lyons Report into Local Government in England for Structural Reform in Australian Local Government

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Abstract: The Lyons Inquiry into English local government presented its Final Report in 2007. It has significant implications for local government jurisdictions beyond England. This article considers the import of the Lyons Inquiry for reform to Australian local government. It is argued that the Lyons Inquiry adds weight to other work that questions the traditional reliance on amalgamation as the chief instrument of Australian local government reform. In particular, the “place-shaping” thesis developed in the Lyons Inquiry shows that the Australian emphasis on structural reform has been misdirected. Further, the Lyons Report offers a range of policy options besides municipal amalgamation.

Keywords: place-shaping, structural reform, local government

In her review of Australian municipal reform, Anne Vince (1997, 151) has described council amalgamation as “a golden thread which runs through Australian local government history” since it has always been the chief instrument of local government policy reform. In a more recent analysis of contemporary Australian local government reform, Dollery, Byrnes and Crase (2007, 5,6) contend that Australian local government structural reform programs typically possess four main features:

- (a) An overwhelming emphasis on the outright amalgamation of local councils rather than other alternative forms of structural change;

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- (b) state government coercion in implementing municipal mergers “ranging from outright compulsion to financial incentives and penalties”;
- (c) the prescription of auxiliary policy measures to accompany forced mergers aimed at softening the immediate negative effects of amalgamation; and
- (d) no systematic attempts to evaluate the outcomes of amalgamation programs after their imposition.

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 to Dollery and Crase (2006, 455), there is a marked difference between *structural change*, which “involves a reorganization of the machinery of local government,” and what they refer to as *process change*, defined as “modifications in the methods employed by municipalities”. Moreover, despite the historical reliance on structural reform as the chief engine of local government reform, Dollery, Byrnes, and Crase (2007) have argued that the longstanding consensus on the efficacy of forced amalgamation has begun to collapse in favor of other methods of improving the operational efficiency of Australian councils, especially shared service models.

Table 1 provides an illuminating quantitative picture of the heavy-handed Australian emphasis on compulsory structural reform as an instrument of local government reform.

A number of telling observations can be drawn from Table 1. In the first place, the total number of municipal authorities in Australia has decreased from 1067 to 680 or by more than 36 percent over the time period 1910 to 2008. During this time period, the total recorded population of Australia increased from 4,425,083 to 20,209, 993 in 2004 (Australian Bureau of Statistics

Table 1. Local Council Numbers in Australia 1910–2008

	1910	1967	1982	1990	1995	2008
NSW	324	224	175	176	177	152
VIC	206	210	211	210	184	79
QLD	164	131	134	134	125	73
SA	175	142	127	n/a	119	68
WA	147	144	138	138	144	142
TAS	51	49	49	46	29	29
NT	0	1	6	22	63	16
TOTAL	1067	901	840	726	841	532

Sources: Advisory Council for Inter-Government Relations (1982), cited in Chapman (1997) and for column 7, Local Government and Shires Association of NSW (2008), Local Government Association of the Northern Territory (2008), Local Government Association of Queensland (2008), Local Government Association of South Australia (2008), Local Government Association of Tasmania (2008), Victorian Local Government Association (2008), and Western Australian Local Government Association (2008).

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(ABS, 2007) (i.e., just under a five-fold increase). Second, the only recorded instances 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.

Third, 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).

Finally, there is a distinct lack of uniformity between jurisdictions in the timing of major municipal consolidation programs: While major consolidation occurred in New South Wales 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 during 1995–2007. Major structural reform in Queensland and the Northern Territory occurred in 2007 and 2008 respectively (Dollery, Ho, & Alin, 2007; Department of Local Government, Housing and Sport (DLGHS), 2008). This suggests that processes of consolidation are largely independent of both national economic trends, political processes at the federal level, and state and federal government negotiations, in particular the Council of Australian Government (COAG) deliberations (Moore, 1997) and its predecessor, the Australian Council for Inter-governmental Relations.

Against this background, a useful way of considering Australian local government structural reform is to examine it in the comparative light of contemporary policy making in other similar local government systems. The landmark 2007 Lyons Inquiry into English Local Government provides an ideal opportunity to evaluate Australian local government policy development against its English counterpart. In particular, what has the Lyons Inquiry concluded about the desirability of structural reform relative to other policy options and what implications could this hold for Australian local government policy making? This forms the central objective of the present article.

The article itself is divided into four main parts. The first section of the article places structural reform within the broader context of a general typology of local government reform developed by Garcea and LeSage (2005). The second part of the article provides a synoptic description of attempts at structural reform in England immediately prior to the Lyons Inquiry while section three outlines the views expressed by Commissioner Lyons on structural reform relative to other policy options. The article ends in section four by considering the implications of the Lyons Inquiry for contemporary local government policy making in Australia.

A TYPOLOGY OF LOCAL GOVERNMENT REFORM

Structural reform represents one of several different approaches to the reform of modern local government jurisdictions. In their pioneering *Municipal*

Reform in Canada, Garcea and LeSage (2005) have developed the most comprehensive typology of policy reform in local government currently available. In this book, Garcea and LeSage (2005, 5,6) identified five specific types of local government reform which can be used to classify real-world municipal reform programs:

- *Structural reforms* involve changes to the “overall configuration” of the boundaries, number and types of municipal authorities;
- *Functional reforms* consist of changes to both the formal and informal functions performed by municipal governments, including the realignment of functions between local councils and other levels of government or other kinds of local governments;
- *Financial reforms* represent revisions to the financial and/or budgetary frameworks of local councils, including any changes to revenue sources, expenditures either in the form of financial responsibilities, requirements, or restrictions on expenditures, and the general management of financial resources;
- *Jurisdictional reforms* involve changes to the powers (i.e., the “authority and autonomy”) conferred on local councils, “to make decisions regarding, among other things, the structures, functions and finances of municipal governments”;
- *Internal organizational and managerial reforms* represent changes to the legislative, executive, management, and administrative structures and processes of local councils.

In their use of these five types of reform developed by Garcea and LeSage (2005), Dollery, Garcea and LeSage (2008, 19) stress that the typology can allow for some overlap between these categories. This occurs most obviously in the case of jurisdictional reforms which occupy a *de facto* role, but are also *de jure* in the sense that they will always trump the other categories. While it is obviously possible to attack the generality of the taxonomy — where the idea of political reform falls in this typology, for example — in the present context we simply accept the validity of the typology and consider the place of structural reform in the English local government reform agenda against the background of this fivefold classification.

STRUCTURAL REFORM IN ENGLAND PRIOR TO THE LYONS REPORT

In his account of structural reform in England over the period 1985 to 2005, Michael Cole (2008, 86) argued that due to the lack of formal constitutional status of local government in Britain, the way was open for substantial and sweeping structural reform in English local government. Nevertheless, despite

a substantial agenda of structural reform pursued by both Conservative and Labor governments within this time period, implementation of this agenda was far from seamless and dogged by party-political concerns. Indeed, it could be characterized as taking the form of “one step forward, one step backward.”

Thus 1986 saw the abolition of the Greater London Council (GLC) and the metropolitan counties (MCCs) as a consequence of the recommendations contained in the Government White Paper (1983) *Streamlining the Cities*. These reforms were characterized by a political tension between a Conservative national government on the one hand and Labour-dominated metropolitan authorities on the other hand, as well as support for the counties from the House of Lords (Cole, 2008, 87, 88). Under the Blair Government a proposal for a Greater London Authority, constituting a directly elected Mayor and 25 elected assembly members, was endorsed in a referendum in 1998 and elections were held in 2000 (Cole, 2008, 87, 88). A Greater London Authority thereby replaced the Greater London Council.

Similarly, at a regional level, following widespread political pressure generated by the implementation of the community charge (the so-called poll tax) in 1990, the (then) Conservative government attempted to replace the two-tier county/district system with a single-tier for local authority. However, Cole (2008, 89) argued that a commitment to public consultation thwarted the reform process so that, between 1995 and 1998, only four county councils were abolished, 46 unitary municipal councils were established, “and the district/county model survived in three quarters of non-metropolitan England.”

Alongside this two-step reform process in England (and despite some political squabbling, mainly in the form of accusations of gerrymandering) relatively successful restructuring occurred in both Wales and Scotland, where 22 and 28 directly elected, unitary authorities were respectively established. These reforms preceded a revival of the unitary approach linked with directly elected regional assemblies in England, but these proposals were soundly rejected by the North East in 2004. The ascendancy of Ruth Kelly to the Ministry in May 2006 led to an emphasis on cooperation between the different tiers and the development of a “neighborhood” reform agenda (Cole, 2008, 89, 90).

While significant structural reform was thus rendered politically problematic in England, ongoing pressure for reform remained unrelenting due to the state of local government finances. Despite an expanded role for the Audit Commission from 1992 onwards, which saw a proliferation of performance indicators being introduced and extended to a Best Value Inspectorate, a Comprehensive Performance Assessment was introduced, and council charges continued to increase, culminating in a (record) average council tax increase of 12.9 percent in 2003.

A Balance of Funding Review, which ran in 2003–04, considered the radical alternatives of introducing local business taxes, local income taxes,

and other taxes to supplement local authority income, but it was the looming re-evaluation of domestic property which eventually prompted the appointment of Lyons Inquiry into the state of local government finances (Lyons, 2007, 42). The initial *raison d'être* for the Lyons Inquiry was thus *financial reform*, as conceptualized within the taxonomic schema developed by Garcea and LeSage (2005).

STRUCTURAL REFORM IN THE LYONS REPORT

The initial Terms of Reference for the Lyons Inquiry (2007, 371) were to consider the case for changes to the present system of local government funding and to make recommendations on any changes necessary to implement them. Nevertheless, while a considerable amount of the *Final Report* is dedicated to financial reform (the detail of which need not concern us at this point), it is nonetheless significant that the head of the Inquiry, Sir Michael Lyons, was led back to (as it were) to more fundamental questions about local government: "During my work on the funding remit, I came to the conclusion that changes to the finance system could not proceed effectively without the role of local government being more clearly established" (Lyons, 2007, 42).

As a consequence, extended Terms of Reference were issued that included a consideration of the strategic role of local government in the context of national priorities, with implications for accountability and efficiency to be considered as well (Lyons, 2007, 371, 372). It is important to emphasize that Lyons seems to have fully utilized the potential of this new remit to produce what has come to be regarded as a definitive document on the role of local government in England more generally.

In his analysis, Lyons identified various systemic limitations on English local government. These included the high transaction costs due to an excessive level of central control,¹ a lack of financial flexibility owing to the nature of the local government grants system and an incapacity to raise revenue from other sources (relative to comparable local government jurisdictions in other countries).

These problems were coupled with rising public expectations on services and negative public opinion about both local councils and central government

¹More specifically, Lyons notes that despite the Government's emphasis on local leadership in its 2001 White Paper *Strong Local Leadership — Quality Public Service*, a persistently high degree of central control led to some anomalous outcomes. For example the overall cost of the monitoring of local government by central government was £2 billion per year, where local authorities laboured under the demand of 566 performance items at a cost of £1.8 billion per authority, and where local government was responsible for 25 percent of funding but had 81 percent of central targets. In addition to this, Lyons noted that there were a range of "soft controls" placed upon local authorities.

(and the relationship between the two). Lyons (2007, 78–112) also observed that due to the centralized nature of governance and financing, local government suffered from a tendency for local authorities neglect the needs and future prospects of their communities and instead concentrate mainly on achieving current funding targets.

Particularly pertinent in this context is the problem of what Lyons has termed “confused accountability.” Lyons argued that despite clear accountability being a prerequisite for local government to act effectively in the interests of its citizens, considerable confusion surrounding what local authorities are responsible for and how the council tax bill is determined predominated. According to Lyons, this was primarily due to the structural complexity of municipal authorities in England: Of 478 “principal local authorities” in England, 354 are low-tier billing authorities, 102 are major bodies, such as county councils, police authorities, and fire authorities, and 22 are precepting authorities which charge another authority for the services they provide — all within the context of over 8,700 parish and town councils and 1,500 parish meetings (“where there is no council because there are fewer than 150 electors”) which are nevertheless classed as local precepting authorities. In addition, the centralization of the business tax and perceptions that London was subsidizing the poorer regions and vice versa presented problems (Lyons, 2007, 97).

The structural complexity of English local government, in contrast to the much simpler composition of all the Australian local government jurisdictions, surely begs the serious exploration of structural reform policy options, particularly given that clearer accountability and improvements in efficiency form two of Lyons’ own benchmarks for reform (the others being greater flexibility, better incentives and tackling perceived unfairness (Lyons, 2007, 110).

However, while Lyons (2007, 99) observed that “there are clearly issues that need to be addressed here,” he also noted that “this should not lead us to quickly assume that we can find simple structural solutions to these complex issues by creating a new tier of government” since “functional economic boundaries are not precisely defined, are different for different kinds of activity and different types of people and businesses, and they change over time.”

These initial objections to structural reform in England by Lyons are continued in the context of his recommendations for the central government’s contribution to his agenda. Again, he was reluctant to consider the policy option at all (“as it did not form part of my remit”), but nevertheless acknowledged that there had been considerable public debate on the question following the Local Government *White Paper* extending a formal invitation to local councils in England that are governed by a two-tier structure (i.e. county and municipal) for proposals to move toward a single-tier of local authority as “pioneers” and “pathfinders” toward new two-tier models (Department of Communities and Local Government (DCLG), 2006a, 62–65; 2006b).

Moreover, Lyons (2007, 135) conceded that whereas

some commentators have argued that restructuring can provide greater efficiency by creating larger authorities . . . others see it as a way of improving accountability to the citizen by simplifying a system in which responsibilities and community leadership are divided between two elected bodies.

Lyons raised several theoretical objectives to restructuring. In the present context they are worth considering. First, Lyons observed that there is always a tension between efficiency on the one hand and ‘the need to engage citizens and provide services that are tailored to their needs, on the other hand. Second, he argued that efficiencies derived from economies of scale are accrued from processes of production only rather than the other dimensions of local council service delivery. Third, Lyons noted that economies of scale can in any case be secured without changing the commissioning unit (by outsourcing, for example, through competitive tendering processes).

Fourth, some empirical evidence, including international work and studies from the British government’s own Comprehensive Performance Assessment, has shown that smaller units can be more economically efficient. Fifth, there are problems with reorganization: It can be poorly executed, it can be expensive and “more importantly it can be disruptive.” Lyons argued that it can also lead to unhelpful inter-authority “hostility.”

Finally, the process of structural reform “does not suggest that the welfare of the citizen is at the heart of local decision-making.” In short, structural reform is “by no means the universal panacea that some would suggest” (Lyons, 2007, 135, 136). In place of structural reform based on amalgamation, Lyons considered the idea of “new sub-regional authorities” advocated by the British Centre for Cities: These authorities would be directly elected and assume responsibility for transport, planning, economic development, and regeneration more generally.

However, while Lyons conceded that there is room for adjusting administrative boundaries to coincide more closely with the spatial distribution of economic activity, he qualified this prescription by admitting that “no boundary will ever be perfect” and on this basis rejected the proposition. Moreover, he cited the *State of English Cities* report approvingly:

There is substantial evidence regarding the problems of using formal institutional or constitutional changes to achieve sub-regional collaboration . . . The majority of places [in Europe] are attempting to collaborate informally on policy issues across boundaries and with partners where they can (Parkinson, quoted in Lyons, 2007, 149).

While these theoretical arguments undoubtedly carry weight, it could be argued that Lyons’ stance on structural reform is inevitable since structural

reform is politically untenable in Britain, or at least highly problematic (as Cole's (2008) analysis has suggested). However, we argue that this is only partially the case. More significant than political expediency or even the theoretical objections to structural reform is the fact that the general direction of the reforms proposed by Lyons lies in the *opposite* direction to amalgamation or consolidation. Yet they are still designed to offer a solution to the problems of the financial sustainability and operational efficiency of municipalities and the urgent need to reinvigorate municipal governance generally. We now move to briefly consider these proposals using the categories developed by Garcea and LeSage (2005).

Firstly, with respect to the financial reforms recommended in the *Final Report*, it must be stressed that monetary concerns were the entry point of the Inquiry and many of the recommendations in the *Final Report* are designed to address his initial remit. With respect to household taxes and charges, Lyons supports the continuation of the Council Tax (a combination of a property-based tax and a charge for services) and the Council Tax Benefit (suggesting that it should be re-badged as a "Rebate"), but he nonetheless argued that more tax bands ought to be introduced "at the top and bottom of the current structure" in order to address equity concerns. He also recommended that residential property be "urgently" re-valued and that re-valuations ought to occur regularly so as to avoid sharp increases in the Council Tax (Lyons, 2007, 240).

In addition, Lyons (2007, 280) argued that local authorities be given the power to charge for waste services. Furthermore, Lyons recommended that the Business Taxes remain centralized with no increase in the level of business rates. However, he also argued that there ought to be an option for a supplementary local business rate (Lyons, 2007, 291–296). Finally, Lyons advocated consultation on the possibility of tourist taxes and examined the plausibility of a Local Income Tax (LIT) — considered three times in the last century — in the foreseeable future (Lyons, 260–272).

In recommending changes to the financial relationship between central government and local authorities, Lyons argued that there still needed to be accountability to central government, but that this accountability had to be radically streamlined and become more outcome-focused and risk-based, rather than simply the monitoring of procedures.

In addition, the Report held that accountability "to clients and communities" has to be strengthened in order to increase overall levels of transparency (Lyons, 2007, 119, 120). While arguing for a strong convening role between tiers of local authority, citing the duty to cooperate under the Local Government and Health Bill as an exemplary contribution to Local Area Agreements (introduced in the 2006 *White Paper*), Lyons did not want to see this become a "rigid model" for relationships between county and shire authorities. On the contrary, "there must be room for different areas to design their own arrangements, recognizing that they are likely to be distinctive." Furthermore, he

recognized the important role of the “third sector” in influencing the policy-making process, stressed the idea of allocative efficiency over productive efficiency, and advocated the relevance of the entrepreneurial spirit in contemporary English local government (Lyons, 2007, 139–143).

These proposed financial reforms overlap heavily with what Garcea and LeSage (2005) denote as “functional reforms.” While the core responsibilities of local government in England — inclusive of aged care and education as well as the typical suite of responsibilities such as roads and waste management — are retained, the advocated devolution of financial responsibility in the form of local income tax, tourist tax, property re-valuation and increasing local financial flexibility generally imply what Garcea and LeSage (2005) denote as a realignment of functions between municipal governments and other levels of government.

As a heightened node of financial responsibility and autonomy, municipal authority under Lyons’ proposed reforms takes a far more prominent role in local economic development rather than merely local service provision. This is clear if we consider the positive examples of economic development Lyons sprinkles throughout his final and penultimate reports, which exemplify an economically activist municipal tier in combination with local business and other stakeholders (Dollery, Grant, & O’Keefe, 2008). It is important to recognize that this argument for economic development based on diversity and devolution of authority is extended to service provision as well. For example, while Lyons can “see the merits” of formalizing a national strategy on key elements of health and education services, he still argues that is a challenge to both define and fund such programs, and that they will have to be set against “local flexibility and choice” (Lyons, 2007, 116).

In terms of the Garcea and LeSage (2005) category of jurisdictional reform, it is important to note that Lyons emphatically states that “I am not seeking to enshrine the constitutional position of local government in law” as “laws and agreements do not necessarily create relationships, and the initial steps [towards his proposed reforms] need to be given time to bed in” (Lyons, 2007, 359). While revealing himself to be cautious in this regard, Lyons recommends that significant jurisdictional reforms be introduced within municipalities, including giving communities the option of directly elected mayors and executives, and directly elected whole councils with four year terms. Some of these changes have in fact occurred (DCLG, 2006a, 4).

The implementation of these jurisdictional recommendations also represents “organizational and managerial reform,” the final category of local government reform developed by Garcea and LeSage (2005). Indeed, herein lies much of the content of Lyons’ proposals, which he denotes as “place-shaping.” As we have demonstrated elsewhere (Grant & Dollery, 2007; Dollery, Grant, & O’Keefe, 2008), Lyons’ place-shaping agenda emphasizes attitudinal and behavioral change over structural change, so much so that they are seen as the keys to institutional reform and economic prosperity. Lyons’ concept of

place-shaping is firmly grounded in theories of social capital, civic virtue, and liberal individualism, and advocates a closer relationship among business interests, political actors, and service providers through a thorough re-politicization of municipal life.

It is this agenda which, by the end of his *Final Report*, comes to take precedence over his original remit to inquire into the state of local government finances:

I have already said that my overriding objective is to enable all local authorities to become strong, effective, place-shapers; confident in their role and direction, actively engaged with citizens and communities, and ready to contribute to our development as a prosperous, cohesive and fair society . . .

In that context, reform of the local government funding system should aim to do two things. *Firstly, funding reform should complement my recommendations on changes to the role and function of local government.* Secondly, it should address those aspects of the current funding system which may act as a barrier to local choice and effective place-shaping . . . (Lyons, 2007, 211; emphasis added).

IMPLICATIONS FOR REFORM OF AUSTRALIAN LOCAL GOVERNMENT

We have seen that despite its comprehensive prescription of reform of English local government, the package of reforms contained in the Lyon's Inquiry do not advocate structural reform. Indeed, the thrust of the *Final Report* discredited structural reform as a central instrument of local government policy making. We need not be misled into thinking that this is the case simply because the principal brief to Lyons was to inquire into the relationship between central and local government finances. As we have seen, Lyons makes these considerations subordinate to his place-shaping agenda.

Nor ought we to assume that Lyons avoids structural reform for reasons of political expediency: In the three reports that the Lyons Inquiry produced, Sir Michael shows the courage of his convictions to the extent that we are entitled to assume that if he genuinely thought structural reform had a significant contribution to make to the overall reform process, then he would have grasped the nettle and pressed for a consideration of these kinds of reforms.

Hypothetically speaking, Lyons could have taken his brief and tackled it with a structural reform agenda, claiming, as indeed Queensland Local Government Reform Commission (2007) did, that many small local councils in that state were inefficient and would work efficaciously only if they were

compulsorily amalgamated (Dollery, Ho Chong Mun, & Alin, 2007). Lyons emphasised place-shaping instead.

In considering the implications for local government reform in the Australian context of the Lyons Inquiry we have to introduce two important caveats. In the first place, it is too early to provide a considered assessment of the local government reforms introduced by the Department for Communities and Local Government in England. An extension of this caveat is that many of Lyons' more radical proposals — the introduction of a Local Income Tax and of a tourist tax, for example — have not been endorsed by government (Dollery, Grant, & O'Keefe, 2008, 9). The second caveat is that the process of structural reform in Australia is largely complete, with the exception of Western Australia, and as such Lyons' rejection of it is *post-facto* and thus less relevant to real-world Australian local government policymaking than what it otherwise would have been.

Despite these caveats, the Lyons Inquiry's rejection of structural reform as a magic bullet to cure the ills of contemporary English local government cannot be disregarded by Australian local government policy makers. Sir Michael makes it plain that modern local government must occupy a central and leading role in local communities beyond its traditional provision of local services. The manner in which this is done has little bearing on the raw size of the local government authority and depends largely on the interaction between local council leaders and local stakeholders in determining the kind of local community in which they wish to live and engaging with the local community to achieve this vision through inclusive decision making.

The efficacy with which this task can be discharged is dependent on much more than local council size, whether measured by population, spatial area, or any other index. It requires not only satisfactory structural, functional, financial, jurisdictional, and organizational and managerial characteristics, but also active ongoing engagement with the local community through supportive leadership processes to foster the place-shaping role of local councils.

Structure is thus but one of many aspects of successful place-shaping and a relatively unimportant aspect in any event. By itself, structural change through either amalgamation or more minor boundary changes can thus be expected to achieve little in implementing a bottom-up community-based vision of local place. Indeed, experience has shown that amalgamation proposals in Australia and elsewhere are almost invariably overwhelmingly unpopular in the targeted local council jurisdictions. As a consequence, council mergers typically represent quintessential instances of top-down policy making.

The main thrust of the Lyons Inquiry with respect to structural reform thus augments other Australian conceptual and empirical literature that is skeptical on the purported benefits of council amalgamation. At a conceptual level, there are strong grounds for the view that the "bigger is better" hypothesis in local government underlying compulsory merger programs is theoretically

flawed in the Australian institutional context. For example, Dollery, Byrnes and Crase (2007) have shown that powerful *a priori* arguments exist which suggest that few efficiency gains can be expected from the amalgamation of several small councils into a larger local authority. In other words, in conceptual terms size is unlikely to be correlated with lower costs of service delivery.

In an analogous fashion, Dollery and Fleming (2006) have argued that potential gains in economies of scope from council mergers may not be significant for many areas of service delivery. At the empirical level, Byrnes and Dollery (2002) have provided an exhaustive survey of both Australian and international evidence on scale economies in local government and demonstrated that this evidence is far from conclusive.

The place-shaping thesis advanced in the Lyons Inquiry thus has important implications for local government reform and local governance in the Australian context. The most obvious point is that any further attempts at structural reform have to be weighed in light of the sustained theoretical arguments against its introduction as argued by Lyons. As a corollary, Australian local government has to move beyond its current fixation on structural reform to the exclusion of other types of reform. This should not be confined to a consideration of the other financial, functional, jurisdictional and managerial/organizational categories of municipal reform developed by Garcea and LeSage (2005).

Indeed, place-shaping is an implied critique of these categories in the sense that it calls for a re-politicization of local government. Local government in the Lyons Inquiry embraces leadership, vision and contest at its core, despite the practical emphasis on financial devolution and enhanced accountability. The widespread conceptualization of government as technique (i.e., as *governance*) is rejected in the *Final Report* in favor of the procedural business of politics.

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