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Has the Queensland Government Policy Reversal on Local Government Amalgamation been Satisfactorily Justified?

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Abstract: In common with other Australian local government systems, Queensland local councils have experienced acute financial and other problems. In a collaborative attempt to address these problems, in 2005 the Queensland state government and the Local Government Association of Queensland (LGAQ) embarked on a Size, Shape and Sustainability (SSS) program to evaluate the sustainability of local councils and provide solutions to the problems the process was designed to unearth. The SSS process was hailed as the best example of voluntary cooperation between state authorities and local councils in the history of Australian local government reform. However, after almost two years, in a shock announcement on 17 April 2007 the Queensland government unilaterally terminated the SSS program and established a Reform Commission to recommend forced amalgamation across the state. This paper provides a critical appraisal of this drastic policy reversal by considering the official rationale for the 'U-turn' and the formal response of the LGAQ to the turnaround in the light of broader trends in Australian local government.

Keywords: Amalgamation; local government; policy reversals; Queensland.

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Introduction

For the past two decades, Australian local government as a whole has been under severe fiscal pressure and the Queensland local government system is no exception to this general rule. Ongoing concern over the long-run functioning of local councils across Australia has been reflected in a plethora of recent public inquiries into local government. At the national level, several official investigations have been conducted. These include the Commonwealth Grants Commission (CGC 2001), Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration's (Hawker Report) (2004) *Rates and Taxes: A Fair Share for Responsible Local Government*, and the Australian Local Government Association's (ALGA) commissioned report by PriceWaterhouseCoopers (PWC) (2006) entitled the *National Financial Sustainability Study of Local Government*.

In addition, a number of recent state local government associations have conducted a series of state-based inquiries which presented public reports: The South Australian Financial Sustainability Review Board's (2005) *Rising to the Challenge* report; the Independent Inquiry into the Financial Sustainability of NSW Local Government's (2006) Final Report entitled *Are Councils Sustainable*; the Western Australian Local Government Association's (WALGA) (2006) *Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia* Inquiry; and the Local Government Association of Tasmania's (LGAT) (2007) *A Review of the Financial Sustainability of Local Government in Tasmania*. These inquiries shared a common interest in the problem of 'financial sustainability'. They also all relied heavily on the 'accounting approach' to financial sustainability developed by the private firm Access Economics that undertook extensive consulting work for all of these inquiries.

Queensland local government has also found itself under the spotlight. In 2004, the Local Government Association of Queensland (LGAQ) resolved to

consider the financial and other pressures confronting councils in Queensland and to examine the various options for local government reform to ensure the long-run viability of local authorities. As a first step, a *Discussion Paper* entitled *Size, Shape and Sustainability of Queensland Local Government* was released on 3 March 2005 and a Special Conference of the LGAQ held in Brisbane in early June 2005, which formulated a *Communiqué* approving a 'comprehensive reform blueprint'. A 'ten point *Action Plan*' followed from the *Communiqué* that was subsequently endorsed by both the LGAQ Executive and the Queensland Minister for Local Government and Planning. The *Action Plan* provided for a local government reform program embodying the *Size, Shape and Sustainability (SSS) Review Framework*, sustainability indicators, 'options for change', 'Independent Review Facilitators', and funding arrangements for state government support of \$25 million. The reform program itself was outlined in the *Size, Shape and Sustainability: Guidelines Kit* (LGAQ 2006).

The SSS review process outlined four main 'options for change': 'Resource sharing through service agreements'; 'resource sharing through joint enterprise'; 'significant boundary change'; and 'merger/amalgamation of adjoining councils'. It is significant that none of these options included the possibility of 'business as usual'. By the latter half 2006, the SSS process was well under way and a number of councils across Queensland had engaged 'Independent Review Facilitators', undergone financial assessment by the Queensland Treasury Corporation and were in the process of conducting the SSS review for their respective areas.

This process was still underway when the Queensland government made the shock announcement on 17 April 2007 that it had abandoned its collaboration with the LGAQ SSS process and decided instead to embark on a radical program of compulsory amalgamation. Under its new Local Government Reform Program, the Queensland state government appointed a seven-member Reform Commission to recommend local council amalgamations by August 2007 for the election of new councils on 15 March 2008. Submissions

by councils and other affected individuals and organizations to the Reform Commission had be lodged by 25 May 2007, thereby effectively curtailing consultation and severely limiting opportunities to make considered submissions to the Reform Commission. The predictable result has been a wave of public disquiet and angry protest across Queensland.

The Terms of Reference (TOR) for the deliberations and recommendations of the Queensland Reform Commission were published under section 159U of the legislation on 19 April 2007: Section 159U reads as follows:

‘159U Terms of reference

‘(1) This section states terms of reference for the reform commission in performing its functions.

‘(2) The reform commission must consider the grouping of like communities of interest to maintain the social fabric and character of communities and areas of the State, and in particular, must consider – (a) review areas established under SSS review processes; and (b) boundaries of areas covered by the regions for which regional planning advisory committees have been established under the Integrated Planning Act 1997.

‘(3) The reform commission’s recommendations must be directed at – (a) consolidating, to the extent practicable, regional natural resource management areas, including for example water catchment areas, and environmental areas, including for example, coastal wetlands; and (b) creating local governments with improved financial sustainability.

‘(4) In making a recommendation for creating a new local government area from 2 or more existing local government areas, the reform commission must give preference, to the extent practicable, to including all of the existing local government areas in the new area rather than parts of the existing areas.

‘(5) The reform commission must identify options for community representation that reflect the diversity of the State’s regions and that promote representation of discrete communities.

‘(6) In making its recommendations for new arrangements, the reform commission must identify any issues requiring further consideration for successfully establishing the new arrangements’.

The rationale for the abrupt policy reversal by the Queensland state government was set out in a document entitled *Local Government Reform: A New Chapter for Local Government in Queensland* (Department of Local Government, Planning, Sport and Recreation (DLGPS&R)) (2007). Apart from submissions by individual councils and groups of councils, the official response of organized local government to the policy ‘U-turn’ took the form of a LGAQ (2007) paper *Submission to Local Government Reform Commission*. This paper seeks to evaluate the substantive arguments presented in these two documents against the broader background of developments in contemporary Australian local government.

The paper itself is divided into three main parts. Section 2 provides a critical analysis for the basis for the policy reversal by the Queensland government as justified in *Local Government Reform*. Section 3 considers the LGAQ response to the policy ‘U-turn’ in its *Submission to Local Government Reform Commission*. The paper ends with a brief discussion of the validity of the arguments presented in these two documents.

Queensland Government’s Justification for Policy Reversal

Local Government Reform: A New Chapter for Local Government in Queensland (DLGPS&R) (2007) is comprised of six chapters as well as an ‘executive summary’, a ‘snapshot’ of factual information and a glossary of terms. In common with numerous other official policy documents in the contemporary Australian political milieu, it is a peculiar mix of argumentation and rhetorical embellishment. However, we will focus our critical appraisal exclusively on substantive argument on a chapter-by-chapter basis and leave the study of ‘spin’ to scholars familiar with post-modern literary criticism.

Chapter 1 *Setting the Local Government Reform Agenda* seeks to place Queensland local government in national perspective (1.1), provide a synoptic history of Queensland local government policy development (1.2), and discuss the SSS process (1.3 and 1.4). Section 1.1 begins with the contentious claim that ‘Queensland is the last state or territory to commence whole-of-state reform’¹. It argues that the rationale for local government reform in Queensland is ‘not unique to Queensland’ and has three main strands: (a) the need to address the ‘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 in Queensland to avoid their current ‘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).

It must immediately be observed that these propositions are entirely unconvincing as a rationale for abandoning the SSS program and replacing it with the Reform Commission process. Quite apart from the intrinsic merits of the necessity for securing (a), (b), (c) and (d), these objectives in any event all formed part of the SSS program. Indeed, Chapter 1 of the LGAQ’s (2006) *Size, Shape and Sustainability: Guidelines Kit* shows that all of these objectives are covered by the various ‘indicators’.

Section 1.4 of Chapter 1 in *Setting the Local Government Reform Agenda* provides a much more convincing explanation for the abrupt policy reversal by the Queensland government. The authors of this document contend that ‘the pace of the SSS has been driven by the participating councils’ and ‘while the first councils sought and received funding in the first half of 2006, only five SSS have to date moved to the *Comprehensive Review* phase (the second

¹ This claim is disingenuous. At the time of writing, both Western Australia and the Northern Territory are still considering rather than implementing local government reform. In any event, the Queensland reform process began with the initiation of the SSS program in late 2004 – well before the NT and WA processes began.

funding stage in the SSS process)'. Moreover, they bemoan the ostensible lack of progress evident in collaborative service delivery, regional cooperation, resource sharing as well as 'boundary change' and 'amalgamation proposals' to emerge from the SSS process. The net result has been that 'regional collaboration projects between local governments are too few and are achieving too little' (DLGPS&R 2007, 15).

However, this argument neglects an important dimension of contemporary Queensland local government: numerous formal regional organizations of councils exist across Queensland as well as a large number of shared service and resource sharing arrangements outside of the SSS process. Indeed, the current Reform Commission submission process will gather a wealth of information on precisely how extensive these arrangements are at present. For instance, the eleven small local councils in falling under the RAPAD umbrella in remote Central West Queensland perform a sterling array of joint functions – a fact that will come to light (Dollery and Johnson 2007). In addition, the LGAQ itself provides a wide range of functions in conjunction with Queensland councils; information that must be known to the Department.

Chapter 2 of *Local Government Reform* moves away from the reasons for the abandonment of the SSS program and instead focuses on the need for urgent reform measures in Queensland local government. It considers the findings of the PriceWaterhouseCoopers (PWC) (2006) national study, the outcomes of the Queensland Treasury Corporation's investigations, current state and federal financial assistance to local government, the objectives of the new reform system, and the TOR of the Reform Commission.

Section 2.2 deals with the PWC (2006) Report. The authors emphasize the fact that this study found that large numbers of Australian local councils were 'non-sustainable' ('between 25 per cent and 40 per cent') and faced severe local infrastructure backlogs. They observe that these problems are 'typically more acute in smaller councils', especially in 'rural or remote areas', but concede that the PWC report also established that 'some larger councils also

have poor financial sustainability' due often to ineffective management. It is also noted that the PWC study reported financial difficulties in local government jurisdictions across the developed world. Finally, it is contended that the PWC Report found that structural reform, including amalgamation, regional resource pooling and shared service models had 'achieved efficiencies' in other Australian states.

Section 2.2 is most noteworthy for material it omitted from the PWC Report. In the first place, while the PWC Report did establish efficiency gains from structural reform, regional networks and shared services, it stressed that amalgamation had proved disappointing and shared services appeared more promising (Dollery *et al.* 2007). Secondly, the entire thrust of the PWC Report advocated massive financial intervention by the federal government in the form of a Commonwealth local infrastructure asset fund analogous to the present *Roads to Recovery* program; a conclusion arrived at independently by other commentators (see Dollery *et al.* 2007). Thirdly, numerous local councils in states that had already undergone forced amalgamation programs, including Victoria, South Australia and New South Wales, and the PWC found widespread financial unsustainability and local infrastructure remained in these jurisdictions, thus demonstrating that compulsory mergers had not proved to be the elusive 'magic bullet'! Finally, in its own analysis of financial sustainability, the PWC Report used a sample of 100 councils, weighted by council type and state size, which found financial distress across all Australian local government jurisdictions, regardless of whether or not structural reform had occurred. Moreover, information on which councils in which states were assessed as unsustainable was made confidential, preventing a direct comparison of Queensland with other states.

Section 2.3 considered the results of the financial analysis conducted by the Queensland Treasury Corporation as at the end of March 2007 when 94 local council reviews had been completed (incorrectly noted as 'over 83 financial reviews' on p.22). The Treasury used a sixfold classification system: 'Very strong'; 'strong'; 'moderate'; 'weak'; 'very weak'; and 'distressed'. Disregarding

the special cases of dysfunctional Aboriginal and Torres Strait Island local authorities, 58 per cent of Queensland councils were rated moderate or above, but *Local Government Reform* makes much of the fact that 43 per cent fall in the 'weak' or below categories. This emphasis is misleading when the definition of 'weak' is considered. 'Weak' is described as 'a local government with an acceptable capacity to meet its obligations in the short- to medium-term and a limited capacity in the long-term', but which is 'unlikely to be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions without the need for significant revenue or expense adjustments' (p.22). By contrast, 'very weak' councils have only a 'limited capacity' in the short run and medium term and may require 'structural reform' to meet 'unforeseen' circumstances. It is thus evident that 'weak' councils are somewhat inaptly named and this expression could be used to describe not only very many councils in other jurisdictions, but also virtually all private firms! Moreover, the definition of 'weak' makes no mention of any need for structural adjustment. Accordingly, if we consider only the 'very weak' and 'distressed' categories, then only 13 per cent should be considered as potential candidates for forced amalgamations on the Treasury's own criteria. In addition to these considerations, it must be asked why the original SSS program could not have served the same purpose, especially given its emphasis on joint enterprises, resource sharing and shared services. This question is not addressed in Chapter 2 at all.

Section 2.4 deals with financial assistance provided to local councils in Queensland by higher tiers of government. Much is made of the fact that, excluding the Northern Territory, per capita grants in Queensland are the highest in Australia at \$88.50, marginally in excess of Western Australia at \$83.90. These statistics are easily explained on the basis of the much greater size of these two states and, in the case of Queensland, the extensive decentralization in local government induced by its greater population dispersion. However, nothing is made of the inconvenient fact that grants per capita in more compact Victoria amount to \$65.20 – easily the third highest

among Australian states before fourth-placed New South Wales at \$34.30 – despite the most extensive program of forced mergers in Australian history! Chapter 3 of *Local Government Reform* focuses on the framework of the Reform Commission’s work and tries to persuade readers of the merits of the process. The authors claim that the formal objectives of the process differ little from the SSS program and use ‘similar key principles’. These objectives are improved service delivery; a more effective role for councils in the regional economy; enhanced management; and superior capacity to form partnerships. In contrast to amalgamation programs in other Australian states, no *ex ante* claims are made with respect to cost savings. The language employed Chapter 3 is laden with irony. For example, in a process that deliberately excludes ‘local voice’ through local referenda, one finds sentiments such as ‘this package of reforms will deliver a progressive system of local government for Queensland’ by installing a ‘system founded on improved service delivery, community driven outcomes and community engagement and inclusiveness’ (p. 31).

Chapter 4 considers Queensland local government in the twin context of skilled labour shortages and constrained water supplies. With respect to constraints on the skills available to councils, *Local Government Reform* points to the well-known problems of acquiring administrative and technical staff and the impact of this on local government capacity, particularly small non-metropolitan councils. It contends that ‘large councils with greater financial resources would be significantly better placed to establish robust regionally-based employment frameworks’ (p.39). No attention is paid to the well-known role of constellations of small councils, though regional organizations of council and analogous arrangements, to achieve the same results without the loss of local democratic autonomy.

Chapter 5 represents the final substantive part of *Local Government Reform* (at two pages in length) and it considers ‘learnings’ from structural reform programs undertaken in New Zealand, the Northern Territory, South Australia, Tasmania and Victoria. In the same order, these reforms are

described as ‘extremely successful’ in New Zealand; ‘far reaching’ (but only scheduled to begin on 1 July 2008) in the Northern Territory; achieved ‘estimated’ recurrent savings of \$19.4 million and one-off ‘estimated’ savings of \$3.9 million (with no actual figures despite concluding in 1998) in South Australia; scale economies ‘achieved in a majority of cases’ in Tasmania; and Victoria, where even ‘long-term opponents now concede the benefits of larger councils’ (pp.43-44). No citations were offered in support of these conclusions nor did the document use any of the standard references on the topic, such as Dollery *et al.*’s (2006b) *Australian Local Government Economics* which deals extensively with structural reform.

Queensland Local Government Association Response

The most important official response to *Local Government Reform* came in the form of the Queensland Local Government Association’s (2007) *Submission to Local Government Reform Commission* since the LGAQ is the peak body representing all 157 local councils in that state. The *Submission* is a self-contained document incorporating an ‘Executive Summary’ and eleven separate sections. In this part of the paper, we critically review the most important aspects of the *Submission*.

The *Submission* is based on the following claims: The ‘factual and analytical basis’ of *Local Government Reform* ‘demonstrates an inadequate understanding of the complexity of local government’. It contains ‘factual and comparative errors’ and ‘fails to demonstrate the impending financial collapse’ of Queensland local government that was used as ‘the state’s primary justification for its precipitous intervention in the reform process’. Moreover, *Local Government Reform* does not ‘demonstrate local government claimed lack of performance in meeting community expectations’ since ‘the opposite is the case’ (p.2). In addition to these substantive claims, the *Submission* also attacks the procedural basis of the Reform Commission, particularly its Terms of reference and the harsh timelines involved. We will consider only the main substantive arguments presented in the *Submission*.

Perhaps the most telling of the *Submission's* critical comments on *Local Government Reform* can be found in section 4. In this part of the *Submission*, the LGAQ attacks the lack of national context in the document. It is argued that the recent spate of state-based and national inquiries have demonstrated conclusively that financial sustainability is a matter for concern in all Australian jurisdictions and that the brunt of the financial crisis has fallen on local infrastructure. The *Submission* readily concedes that these systemic problems are also evident in Queensland. However, in line with the arguments we have presented earlier in this paper, it is maintained that (a) ongoing financial stress existed in all Australian local government jurisdictions regardless of whether or not they had undergone structural reform; and (b) that this demonstrated that amalgamation was not the 'magic bullet' as suggested in *Local Government Reform*. Moreover, as Dollery and Crase (2006) have shown, the *Submission* intimates that the definition and measurement of financial sustainability are fraught with conceptual difficulties and informational deficiencies, which render the identification of financially 'at risk' councils hazardous.

The *Submission* attacks *Local Government Reform* for refusing to inquire into the reasons for the financial problems in Australian local government. In this regard, the *Submission* correctly contends that 'the funding dilemma facing local government is well understood due to the fact that the structure of revenue generation between the spheres of government does not match statutory expenditure obligations' (p.13). In other words, vertical fiscal imbalance is the root cause. The *Submission* points out that this problem has been exacerbated by (a) cost shifting from state and federal governments and (b) a decline in the real value of intergovernmental grants from these governments.

In the specific case of Queensland, the *Submission* notes that the Queensland state government is in receipt of substantial increased GST funds (around 9.5 per cent increase from 2000-2001) whereas local councils are solely reliant on rates as their tax base. The usual policy instrument used to

tackle the problem of vertical fiscal imbalance is grants, but grants only increased by 4.7 per cent over the same period (Table 4.0).

With respect to assertions in *Local Government Reform* concerning the acute degree of financial unsustainability, and its use of the Queensland Treasury financial assessments of councils, the *Submission* is scathing. As we have already seen in this paper, the allegation in *Local Government Reform* that 43 per cent of local councils are in dire financial straits relied on a peculiar interpretation of the Treasury's 'weak' category. The *Submission* demonstrates that this assertion is further undermined when the Treasury's own financial 'outlook' analysis is considered. Of the 28 councils identified as 'weak', none had a 'negative' financial outlook, with 3 classified as 'positive', 6 'neutral' and the remaining 11 as 'developing' (Table 4.1).

The *Submission* also criticized the proposition in *Local Government Reform* that since Queensland had a greater proportion of small local councils than other states, and that there existed a relationship between council size and council financial status, this meant that structural reform was especially necessary in Queensland. In its financial assessments of councils, the Queensland Treasury found that of the 42 councils with populations of less than 5,000 souls, 19 were rated 'moderate' or better (p.18)! The *Submission* could have cited further damning evidence of the falsity of the hypothesized correlation between size and sustainability, especially the work of Murray and Dollery (2005; 2006).

The final telling criticism of the financial claims in *Local Government Reform* (DLGPS&R 2007, 25) concerns the assertion that 'the Queensland government provides more funding to its local governments than any other state in Australia on both a per capita and absolute dollar basis'. The *Submission* attacks this proposition on four main grounds. In the first instance, unlike almost all other Australian states, in Queensland local government has been responsible for water and wastewater services; a substantial and expensive responsibility. The *Submission* contends that of the estimated \$700

million to be given to local councils by the Queensland government over the next five years, 'some \$450 million relates to the water responsibilities of councils' (p.19). It must immediately be added that since on average service charges (including water and wastewater charges) earned local councils about 39 per cent of their in the financial year 2005-2006, the *Submission* somewhat overstates its otherwise valid argument. Secondly, the *Submission* contends that the claim for the most generous state funding is erroneous since the projected \$700 million includes 'the funding provided to Indigenous councils for operational support, housing and other programs'. Moreover, in comparison with other Australian states, 'only in the Northern territory does a similar Indigenous sector of local government exist' (p.19). Thirdly, the state government only provides funds for day-to-day operations to Indigenous councils and not regular local councils. State funding is hypothecated to specific functions, particularly roads, and only Financial Assistance Grants from the Commonwealth government constitute untied revenue support. Finally, it is argued that amalgamation *per se* will in any event reduce the generosity of state government support in Queensland owing to the current methodology used in calculating the value of grants; both a 'flagfall' of amount \$350,000 per council and a reduction in need assessment would mean that a larger council consisting of several smaller rural shires would lose grant funding. In other words, the Queensland Local Government Grants Commission's own horizontal equalization formula will punish forcibly merged councils.

In addition to rebutting the financial claims made in *Local Government Reform*, the *Submission* also took issue with negative assertions regarding the realization of community expectations of local government. For instance, *Local Government Reform* claimed that there are '*a large number of rural and remote councils that are financially unsustainable or unable to meet community expectations regarding service delivery*' (p.19) (emphasis added). The authors of the *Submission* met this claim with three arguments. Firstly, the LGAQ conducts periodic surveys of community attitudes to the performance of their local councils. Figure 4.0 in the *Submission* summarizes

the outcome of these surveys (in 1995, 1999, 2001, 2003 and 2005) and shows the 'overall performance score has averaged more than 70 per cent over the period' (p.22). Moreover, the score obtained in 2005 is higher than that for 2003. There has thus been no recent decrease in community satisfaction with Queensland local councils as a whole. Secondly, Figure 4.1 decomposes these scores by type of council (i.e. 'developed metro', 'fringe metro', 'provincial' and 'rural'). The result of this exercise shows that there are negligible differences by council type with respect to community satisfaction. Finally, the 1995 survey asked respondents to rank councils against the state and federal governments in terms 'caring' and the comparative 'dedication' of elected representatives: in both instances local government outscored higher levels of government (42 per cent more 'caring' and 41 per cent more 'dedicated'). This latter argument seems not only weak, but also unnecessary to rebut the general *Local Government Reform* claim regarding community dissatisfaction with the performance of small rural councils.

Concluding Remarks

We are now in a position to provide general assessments of the substantive arguments advanced in the DLGPS&R's (2007) *Local Government Reform* and the LGAQ (2007) *Submission*. Three main observations appear warranted.

In the first place, ignoring the advocacy element in both documents and the associated tendency to resort to rhetoric rather than argument, the *Submission* is entirely correct in its central proposition that *Local Government Reform* ignores the root causes of the financial distress facing local councils, most of which derive from 'non-discretionary' factors over which local councils have no control. In this respect, *Local Government Reform* represents an ill-informed and awkward contrast with the findings of the CGC (2001), the Hawker Report (2004), the PWC (2006) report, the South Australian Financial Sustainability Review Board (2005) report, the NSW (2006) inquiry, the WALGA (2006) report, and the LGAT (2007) review. As we have seen, these

documents all found that financial unsustainability was widespread across all Australian local government jurisdictions, regardless of whether or not structural reform had occurred. Amalgamation cannot thus be validly perceived as a 'magic bullet' destined to cure the financial ills of Queensland local government.

Secondly, the *Submission* accurately identifies several factual errors in *Local Government Reform* that cannot simply be ascribed to pejorative rhetoric. In particular, we have seen that *Local Government Reform* deliberately distorts the pervasiveness of financial unsustainability in Queensland local government by misinterpreting the findings of the Queensland Treasury and omitting inconvenient aspects of its financial assessments. While both documents agree that financial distress is apparent amongst Queensland councils, it is quite wrong for *Local Government Reform* to suggest that the situation is more acute in Queensland than elsewhere and the current degree of financial assistance by the Queensland government is somehow disproportionately large.

Thirdly, both *Local Government Reform* and the *Submission* place far too much emphasis on financial sustainability at the cost of ignoring other crucial attributes of sustainability, especially 'local community sustainability'. For example, Dollery *et al.* (2006a) have presented a strong case that financial sustainability is only part of a much broader notion of community sustainability, especially in rural and remote areas where the role of local councils is much wider and local authorities must assume key responsibilities far outside their normal range. Moreover, the pursuit of financial self-sufficiency in Australian local government is in any event a chimera given the structure of Australian public finance, the assignment of functions in Australian federalism, sharp vertical and horizontal fiscal imbalances between the different tiers of government, and the massive local backlog in local infrastructure. Continued subsidization of local government is thus simply a fact of Australian fiscal life that will not go away.

In sum, the case for forced structural reform advanced in *Local Government Reform* is deeply flawed and the *Submission* is correct in both the general thrust of its argument and most of the 'factual' inaccuracies it portrays. We are thus forced to the conclusion that *Local Government Reform* represents an *ex post* rationalization for a predetermined political decision by the Queensland state government and not a persuasive case for a policy reversal.

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