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by

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Abstract

Over the past decade Australian local government has undergone drastic change. The sheer pace of reform has made it difficult for practitioners and scholars alike to document and evaluate these rapid changes and even most recent extant analyses are now dated. Accordingly, there is an urgent need to review trends in Australian local government which is the objective of this paper.

Key Words: Local government, legislative reform, structural reform, workplace reform, financial reform.

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Introduction

Over the past decade Australian local government has been subjected to drastic policy-induced changes which have substantially altered its nature and form. Chapman (1997) has identified two broad phases for contemporary local government in Australia. Firstly, “the period between 1970 and 1985 ... saw the major and continuous change for local government in its functional responsibilities, in the level of expenditure not covered by rates and borrowings, in the demand placed on its professional officers, and in the need for councillors to be adaptable and change attitudes to their task” (Chapman 1997, p. 49). Secondly, after a brief respite, a new phase of reform began in the early 1990s, which emphasised a broad program of microeconomic reform, including national benchmarking and national competition policy. This second phase has continued more or less unabated regardless of the political complexions of state and Commonwealth governments. Indeed, in the early days of its period in office, the new Howard administration reiterated its commitment to the ongoing reform of Australian local government repeatedly. For instance, the then Commonwealth Minister for Local Government, Warwick Smith (1996: 1), noted in his address the National General Assembly of the Australian Local Government Association on 3 December 1996 that:

All governments must anticipate and react to continual change and respond to rising pressures from the community, business and government sectors to improve efficiency and effectiveness of their services. Local government is no exception.

The Minister went on to identify the nature of the reforms envisaged by the Commonwealth government. These included regulatory reform, benchmarking and performance indicators, competitive tendering and contracting, competition policy, and restructuring. Not only has the Commonwealth government pursued these policies vigorously, but it has also added significant new reform programs, such as workplace reform.

The sheer pace of reform in Australian local government has made it difficult for practitioners and scholars alike to document and evaluate the changes that have taken place. For example, even comparatively recent and concerted attempts to analyse the profound changes in Australian local

government, like Dollery and Marshall's 1997 edited volume *Australian Local Government: Reform and Renewal*, are already dated. Accordingly, there appears to be an urgent need to review trends in local governments to keep pace with rapid ongoing development. This objective forms the subject matter of the present paper.

The paper itself is divided into six main parts. The first section deals with the legislative reform program in Australian local government. The second section deals with competitive tendering, competitive neutrality and contracting out. The third section focuses on the question of structural reform and especially the explosive issue of amalgamation. The fourth section examines workplace reform whereas the fifth section discusses financial reform. The paper ends with a few brief concluding remarks.

Legislative reform

All state governments have either completed, or are in the process of completing, substantial reviews of their Local Government Acts. The direction and timing of the new Acts, and the tenure of existing legislation, vary across the states. In Victoria, a new Local Government Act was enacted in 1989 which replaced existing legislation dating back to 1958. Substantial amendments were subsequently made with the *Local Government (Amendment) Act (1996)* and the *Local Government (Further Amendment) Act (1997)*. The former Act has the purpose of increasing council accountability requiring a statement of performance targets and attainment, whilst the latter Act serves to clarify the roles and powers of the chief executive officer in relation to establishment of an appropriate organisational structure and employment arrangements for council staff. In New South Wales, Queensland, Western Australia and Tasmania, new Local Government Acts replaced existing legislation which had been unchanged since 1919, 1936, 1960, and 1962 respectively. Finally, working drafts of Bills for a revised Local Government Act are under consideration in South Australia. The legislation is intended to replace the existing Act dating from 1934.

Whereas the states' legislative reforms vary enormously in their content, they have several common features. Key amongst these are attempts to reform the "essential elements of council's operations, to set out accountability mechanisms, and to reduce the detailed prescription [found in the previous legislation]" (Wensing 1997b: 91). The legislative changes also provide the necessary framework for

the program of microeconomic reform found in the wider public sector, details of which will be examined in the next section. Moreover, the process of reform in some states has run parallel to reforms in planning systems and state planning statutes. In particular, these associated reforms have focused on the need to “strengthen both regional and local strategic planning in order to establish a better framework for decision making across the whole of government; the provision of essential infrastructure and services; and the clearer definition of the respective roles of state and local governments” (Wensing 1997b: 91).

However, the primary purpose of legislative reform has been the generational, and sometimes even longer run, change in thinking about the role and functions of local government. Wensing (1997a; 1997b) argues that the previous Acts established prescriptive powers and functions that largely reflected state governments views that local government was a convenient administrative arrangement to which to delegate part of its functions. Moreover, “the overriding philosophy was one of regulation and stewardship of certain public assets, rather than ensuring that services were being provided to local communities in the most efficient and effective manner possible” (Wensing 1997b: 90). However, there have also been modifications in the way in which local communities, and local government itself, think about the role and functions of local government. Wensing (1997b: 93) quotes a letter from a former Queensland Minister for Local Government outlining the new legislation:

The present Local Government Act was introduced in 1936 when the principal focus of local government services was on providing basic community infrastructure and property related services. Almost 60 years on there is a growing expectation everywhere that councils should play a much greater role in the social, economic and environmental well-being of their communities.

This is not to say that state specific stimuli did not exert an influence on the move to legislative reform. In Victoria, the changes associated with the new Local Government Act included the establishment of a Local Government Board, wholesale boundary changes, and the introduction of compulsory competitive tendering for the bulk of council services (NOLG 1997: 150). On the other hand, the process of reform in Queensland grew from the Fitzgerald Inquiry and the establishment of the Electoral and Administrative Review Commission (EARC) and the Criminal Justice Commission (CJC) (Wensing 1997a, 1997b; Sproats 1998).¹ The first of these bodies was primarily concerned with electoral reform, open disclosure, review of boundaries and ethical conduct, while the second

focused on personal and corporate accountability, control systems and audits and the public disclosure of interests.² Finally, in Tasmania the existing legislation had been complicated by a large number of amendments and statutes detailing additional functions and powers, and the need arose to simplify and clarify their impact and interpretation (Wensing 1997b). However, regardless of state-specific issues, Wensing (1997a: 43) observed that:

[I]n most states the changes to Local Government Acts have given councils general competence powers that enable them to do whatever is necessary to better meet local community needs and aspirations. The powers have been accompanied with changes to Planning Acts, giving councils much more responsibility for strategic planning in their local area.

Competitive tendering, competitive neutrality and contracting out

One requirement of the revised local legislation in most states was the need to establish a framework suitable for accommodating the commitment by local government to apply the competition principles outlined in the Competition Principles Agreement (CPA) of 1994, notwithstanding the fact that local government is not a signatory to the Agreement.³ Although the need for brevity limits discussion of the CPA, the general principles entailed cover both the prohibition of commercial practices, such as price fixing, market sharing, resale price maintenance and third-line forcing in the public sector, and the endorsement of the notion of competitive neutrality to ensure that there is no net advantage by government business enterprises over private sector competitors (that is, firms compete on their inherent strengths and weaknesses irrespective of ownership). The CPA also initiated the scrutiny of public monopolies to separate regulatory from commercial activities, to oversee monopoly pricing, and to review legislative restrictions on competition. Since most Australian local authorities retain monopolies over the delivery of many services and are often involved in commercial undertakings, there is an obvious need for their implied commitment to implement the competitive reforms entailed in the CPA.⁴ This has invoked a dramatic change in the way councils go about their business. Many councils have restructured by introducing a ‘provider/purchaser’ or ‘funder/provider’ split with staff designated as either ‘providers of goods and services’ or ‘purchasers of goods and services’ (Sproats 1998). Still others have “lifted the restrictions as to how and to whom services and goods will be provided or how and from whom they will be purchased” (Sproats 1998: 11). However, apart from the overall commitment to the CPA, the pace of adoption to these principles varies across states, so it is perhaps best to assess it within this framework.

The pace of adoption of the principles entailed in the CPA has been most rapid in Victoria [see, for example, Victorian Local Government Board (1993)]. Under the auspices of the various Acts, targets for the introduction of compulsory competitive tendering, whereby agencies are required to introduce competitive tendering to specified services or a specified level of expenditure, and competitive neutrality have been mandated. For the former, compulsory targets for expenditure subject to competitive tender were set at 20 percent in 1994/95, 30 percent in 1995/96, and 50 percent in 1996/97. Of Victoria's 78 councils, some 88 percent met the 1995/96 benchmark, with around 37 percent of aggregate operating expenditure (or \$940 million) subject to competitive tender. For the latter, councils were obliged to apply with competitively neutral pricing principles from July 1997. A pricing guide to help councils in implementing this policy was released in May 1997 (NOLG 1997).

In other states the reform process has been more gradual and pressures for the degree of prescription more subdued (NOLG 1997: 150). Kiss (1997: 51) has argued that this was not the case in Victoria, where the state government was "unconstrained by institutional or political barriers" due to the recent program of structural reform. In NSW, local government retains considerable flexibility and autonomy in applying competition policy.⁵ However, councils will be required to undertake some reforms in the way in which business activities are operated. For example, there is explicit reference to the power of the Independent Pricing and Regulatory Tribunal (IPART) to review the pricing practices of local government business activities that can be declared monopolies under the separate IPART legislation (New South Wales Government 1997; IPART 1998).⁶ In Queensland, the main emphasis in competition policy is on the significant business activities of larger urban councils. The policy likewise recognises the autonomy of local government by leaving the implementation of reforms in the hands of individual councils (Committee for the Economic Development of Australia 1996). On the other hand, Western Australia has focused on the costs and benefits of restrictive legislation at the local level (NOLG 1997: 157). Using a staged review process to the year 2000, local laws are reviewed to detail the costs and attendant benefits of lack of competition. A public benefit test is also being applied to large business activities.⁷ Competitive compulsory tendering has been ruled out by the Western Australia state government in the belief it is impractical in many of the state's rural and remote areas. Finally, in Tasmania a timetable for the full

cost attribution of all business activities was set in place. However, the program was suspended in light of the recent amalgamation process (NOLG 1997: 159).

Even before the CPA, the vast majority of Australian councils used competitive tendering in some form or another (Industry Commission 1996: 63).⁸ For instance, in 1989 87 percent of councils contracted at least one service, with 52 percent contracting out more than four. In NSW between 70 and 85 percent of councils used contracting for refuse collection, sanitation and road and bridge maintenance, and had already been doing so in 1988/89, compared to around 50 percent in 1960/61. Studies suggest that by the early 1990s some 10 to 20 percent of total aggregate council expenditure was contracted out, without any degree of compulsion (Industry Commission 1996: 63). In a 1990 survey, the Evatt Research Centre (1990) found the most commonly contracted services (with percentage of councils contracting out the selected service in brackets) to be: (i) recycling (60%), (ii) household garbage collection (55%), (iii) cleaning of kindergartens (42%), (iv) cleaning of community centres (35%), (v) drainage (21%), (vi) road, bridge and footpath maintenance (17%), (vii) operation of child care centres (5%), (viii) elderly care services (4%), and (ix) social workers (1%). More recent data is available on the Victorian local government experience under the first year of CCT. In 1994/95 over half of CCT expenditure was on public works and services (roads, drainage and public facilities), followed by approved purchasing schemes, environmental services (garbage collection, recycling and street cleaning), administrative and financial services, recreation facilities, and health and welfare services. However, there is some variance in the types of services contracted by councils. Studies have indicated that rural councils typically contract out professional services, such as valuation, engineering and planning services, whilst urban councils are more likely to contract out recycling, construction and road and building maintenance (Evatt Research Centre 1990; Industry Commission 1996).

Evidence on the effects of compulsory competitive tendering and contracting out in Australian local government is also somewhat mixed. Of the Australian evidence, the Evatt Research Centre (1990: 62) concluded that “there is tentative evidence to suggest that lower cost may be achieved in many cases at the expense of service quality”. However, Aurlich (1997b) argued that the potential costs savings in CCT were not as large as expected due to transactions costs involved in implementing the reforms. A survey of Victorian local authorities found that nearly half of respondents had indicated

that quality had improved with tendering, with only 22 percent suggesting it had not (NOLG 1995). After reviewing a number of local government cases, the Industry Commission (IC) (1996: 156) concluded that “the available evidence on the cost impacts of CTC suggests that CTC has in the past provided substantial savings ... it is also clear that saving cannot be guaranteed in every case”. Furthermore, the Industry Commission (1996) found that whilst there was potential for some of the savings to derive from transfers, the greater proportion of documented savings was likely to come from efficiency gains. The sources of efficiency gains cited include “improvements in management and work practices, wider access to skills, more efficient use of capital, stimulation of innovation and increased flexibility in service delivery” (IC 1996: 157).⁹

The fact that the use of competitive compulsory tendering and contracting out has increased dramatically among Australian local governments is quite clear. However, the proposition that cost savings and improvements in service quality have occurred because of this process is less certain. Part of the problem resides in the nature of the markets in question – the degree of competition and contestability, agency costs required to clarify and specify standards of services, and to monitor the standards of services delivered, and benefits attributable to other reforms such as amalgamations – and part due to limitations in the empirical studies intended to measure the extent of efficiency gains.¹⁰

Structural reform

One of the most contentious features of Australian microeconomic reform has been the restructuring and amalgamation of local government areas (Sproats 1998).¹¹ With the exception of New South Wales, all states have either completed, or are in the process of completing, structural adjustment during the period of the 1990s. Excluding NSW and Western Australia, where the numbers of councils have marginally risen (by 0.5 and 2.9 percent respectively), this has usually involved a reduction in the number of individual local government units in each state. In Victoria, the number of local government areas has fallen by 62.8 percent since 1990, with reductions of 6.7 percent in Queensland, 41.8 percent in South Australia, and 36.9 percent in Tasmania over the same period (see Table 4.1). And with rare exceptions, the process of structural reform has been instigated by the

state governments, and most often in the context of the financial, legislative and corporate governance reforms advanced over the same period.¹²

Table 1. *Trends in the number of Australian local governments, 1910–97*

State	1910	1918	1928	1938	1948	1958	1968	1978	1991	1993	1997
NSW	324	320	319	299	289	230	244	205	176	178	177
Vic.	206	190	195	196	197	205	210	211	210	205	78
Qld.	164	173	152	144	144	133	131	131	134	132	125
SA	175	184	196	142	143	143	142	132	122	119	71
WA	147	141	147	148	148	147	144	138	138	139	142
Tas.	51	50	49	49	49	49	49	49	46	29	29
NT	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7	7
Total	1067	1058	1058	978	970	907	900	866	826	701	629

Sources: ABS Commonwealth Year Books, Commonwealth Office of Local Government Financial Assistance Database.

Notes: Totals exclude the 100 Community, Aboriginal and Torres Strait Islander and other local governing bodies receiving Commonwealth Financial Assistance Grants – 62 in the Northern Territory, 31 in Queensland, 6 in South Australia and one in NSW; N/A – not applicable.

Although the objectives and *modus operandi* of state-based structural reform vary enormously, a common core of social, political and economic conditions underlie the spate of recent amalgamations. The first set of conditions that have been advanced are standard public finance arguments for consolidation. Starting with the economic theory of ‘fiscal federalism’ (the division of taxation and expenditure powers among different levels of government comprising a federation), the ‘correspondence principle’ holds that the size of a particular government should correspond to the ‘benefit region’ or the area of the benefit flowing from the goods it provides to citizens (Dollery 1997). This ‘benefit region’ is likely to vary with the type of public good provided, and will accordingly correspond to particular levels of government. Dollery (1997: 449) has argued that:

Thus, services which are nationwide in their benefit incidence (like defence forces) should be provided nationally; services with regional benefits (such as highway systems) should be provided regionally; and services with local benefits (like streetlights and pavements) should be provided locally.

This notion of a benefit region therefore provides the concept of an optimal community size in the provision of local public services. Pressures for consolidation may therefore arise on the basis that these benefit regions extend or ‘spillover’ into the jurisdictions of adjacent local councils, combined with arguments concerning the economies of scale and scope resulting from large multifunctional jurisdictions. However, such spillovers do not necessarily provide an argument for amalgamation,

the primary limitation being that local public services vary greatly in their economic characteristics, like economies of scale and benefit regions. Dollery (1997: 450) has concluded that:

[I]t is highly unlikely that the optimal service district for fire protection services will coincide, or even resemble, optimal service districts for, say, refuse collection, public parks, or sewerage treatment works. It follows on theoretical grounds that a single common service district for even a relatively small number of local public services resulting from the amalgamation of small councils may not be efficient, even if any positive gains in administrative efficiency are included.

A number of reports have been completed using at least some of these arguments. For example, the IPART (1998: 50) interim report received a number of submissions suggesting that economies of scope exist for a range of services typically provided by councils. Examples include the grouping of water and sewerage, as well as the grouping of planning, building, and economic development functions. Similarly, submissions to the Tribunal generally supported the existence of economies of scale in the provision of local government services. Some of these suggested that the viable size for local government units in high population density areas ranges from 50,000–240,000 residents. Other submissions concluded that the most economical size of council is around 250,000 constituents (IPART 1998: 51). The presence of these effects in the context of Australian local government has been disputed by a number of authors [see, for instance, Abelson (1981), Jones (1995) Tucker (1997) and Vince 1997]. Some of these writers also discuss possible alternatives to amalgamations, including inter-authority contracting (Jones 1995; Vince 1997), informal staff and equipment substitution (Vince 1997), resource sharing (Dollery 1997), special purpose joint authorities, local area integration, and so on.

The second set of conditions largely relate to the specific context within which Australian local government operates. Certainly major changes to the demography, employment and infrastructure of local government areas has meant that many geographically-based boundaries are increasingly anachronistic (Vince 1997). Advances in technology and transportation also mean that larger local government units are theoretically feasible (Jones 1993). And the changing nature of Australian society has increased community demands and expectations of local government to provide a wider range of community facilities and human-related services (Vince 1997). Apart from these a large

number of other factors contributing to the pressures for amalgamation in Australia have been proposed. They include desire for administrative simplicity deriving from a smaller number of councils by the state; bureaucratic attempts at maximising perquisites in larger councils; lowers costs of representation; access to more diverse funding bases; and public choice models of behaviour by both federal and state politicians [see, for example, Jones (1995), Smith (1996), Vince (1997), Dollery (1997) and Sproats (1998)].

The evidence supporting both sets of arguments has benefited from the increase in fiscal transparency and accountability provided by the raft of recent legislative and financial reforms. The shift in legislative emphasis from a regulatory to an enabling role, and the increase in accountability and transparency provided by financial reform, has provided a suitable background to amalgamation. Moreover, increased scrutiny of state grant organisations (upon whose grants councils rely to a greater or lesser extent) has served to intensify the pressures for consolidation by quantifying the external costs of inefficient councils in a system of intergovernmental grants. However, many of the circumstances contributing to amalgamations derive from particular state/local relations, and it is to the structural reform process in each state that discussion will now turn.

Boundary reform has been fastest and most dramatic in Victoria (Chapman 1997b; Sproats 1998). However, the background to the most recent restructure dates at least to the 1962 *Report of the Commission of Inquiry into Local Government* which focused attention on the issue of boundary alterations and local authority mergers (Kiss 1997). In the 1970s, amalgamation efforts tended to concentrate on large urban concentrations. For example, in 1972 the Local Government Advisory Board (LGAB) recommended the amalgamation of the cities of Melbourne, Fitzroy, South Melbourne and Port Melbourne, and a similar 1979 report advocated a single authority for Geelong. Both recommendations were rejected by the state government. However, an important catalyst for structural change was presented by the *Water and Sewerage Authorities (Restructuring) Act 1983* which reduced the number of such bodies across Victoria from 350 to 140. In a number of rural areas the operations of the amalgamated water and sewage authorities were taken up by local government authorities.

Finally, in late 1985 the *Report by the Victoria Grants Commission on the Prospective Financial Advantages of Restructuring Local Government in Victoria* conducted a statistical

analysis of economies of scale in Victorian councils and predicted a financial crisis in some smaller councils. A subsequent report entitled *The Restructure of Local Government in Victoria: Principles and Programme* on implementing structural reform in 1985/86, which would have reduced the number of individual councils by about half, was not carried through due to political pressure at the state level and popular protests against amalgamation (Jones 1995; Vince 1997). However, the general tenor of these recommendations was embodied in the Victorian legislative reforms discussed earlier which carried provision for the establishment of a Local Government Board to review the structure of local government. Hallam (1994) has argued that whilst the Board commenced with no set reduction target, the state government “made no secret of its desire to substantially reduce the number of councils in Victoria”. The number of councils was reduced from 210 to 78 over the period August 1993 to February 1995, a process which nearly doubled the average population of metropolitan councils from 57 000 to about 100 000, and was expected to deliver rate savings of some \$300 million. Savings of \$249 million eventuated in the restructured system in the first year (Hallam 1995), but at the expense of labour and management problems, difficulties with integrating administrative and financial systems, and some degree of asset duplication and community dissatisfaction (Kiss 1997; Vince 1997).

In Tasmania, pressures for structural reform had been felt since at least 1907 when the *Report of the Commission Established by the Local Government Act* reduced the number of councils from 149 to 53. In a series of additional reports, the *Royal Commission on Local Government* 1939, *Report of Select Committee of House Assembly* 1961, and the *Report of the Tasmanian Municipal Commission* 1965, recommendations were made to reduce the number of councils significantly. These were all unsuccessful due to “legal or political reasons” (Sproats 1998: 4). However, the 1992 *Inquiry into the Modernisation of Local Government* did succeed because “the Tasmanian state and the majority of local governments jointly pursued genuine reform of the local government system” (Vince 1997: 160). The report recommended that because of the low, and in some areas, negative growth potential, “the best means of providing the opportunity for the advantages of economies of scale to be taken is for the capacity of these areas to be enhanced by the creation of new larger authorities through mergers” (Local Government Advisory Board 1992: 5). However, whereas Tasmanian structural reform has been as comprehensive as that found in Victoria, it has been pursued in “a much more co-operative atmosphere and over a longer period of

time” (Chapman 1997b: 15). Vince (1997: 161) has argued that the Tasmanian experience of structural reform succeeded because of the willingness of existing councils to be involved in the reform process, the offer of the state government to fund transitional costs arising from the process of amalgamation, and the willingness of elected councillors to be involved in the process (albeit under the threat of an appointed commissioner, as in the case of Victoria).

South Australia experienced a steady decline in the number of local councils until the late 1980s. A 1988 report entitled *Scale Economies in South Australian Local Government*, found that savings could be made if large-scale amalgamations were enacted. Jones (1995) argued that this report, which was also used as the basis for the Tasmanian inquiries, was based on faulty methodology which introduced biases against non-metropolitan areas by failing to adjust for differences in administrative costs across population densities. In October 1994, a Ministerial Advisory Group on Local Government Reform was established with terms of reference covering roles and functions, performance and benchmarking, competitive tendering, structural arrangements, and incentives for amalgamation. However, its report on structural reform emphasised the desirability of voluntarism, with a target number of 34 councils (from 118). Ostensibly to overcome a backlog in the pace of such voluntary restructuring, the Local Government Reform Board (LGRB) was established to oversee the amalgamation process, initiate its own proposals for amalgamations, respond to initiatives taken by councils, and provide financial incentives (Sproats 1998: 5). The number of councils was reduced from 118 to 69, and the number of elected members from 1100 to 700 by the May 1997 elections. Total recurrent savings to date are estimated at \$20 million (with \$13 million among metropolitan councils and \$6.3 million among rural councils) or about 8 percent of rate revenue.

By contrast, the process of recent structural reform in Queensland is interesting for at least two reasons. Firstly, in 1925 Australia’s largest municipality, Brisbane City Council, was created from an amalgam of nineteen local government areas. This still represents the only Australian capital city under the control of a single local government [a continuation of what Tucker (1997) refers to as an overall ‘greaterisation’ program in the 1910s]. The second reason for interest is that whereas some boundary reforms had been subsequently implemented, the immediate catalyst for the recent round of structural reform was not financial. As discussed in the earlier section on legislative reform, the Fitzgerald Inquiry’s recommendations for the Criminal Justice Commission (CJC) and the Electoral

and Administrative Review Commission (EARC) had created a general climate of change in boundaries in Queensland. In 1993/94 Queensland's Office of the Local Government Commissioner estimated that the merger of sixteen councils into seven – Gold Coast, Ipswich, Burnett, Mackay, Cairns, Warwick and Cooloola – would save \$9.4 million or 6.1 percent of the rate base. With few exceptions, these largely included the amalgamation of large regional centres and their hinterlands: for example, Gold Coast and Albert councils, Cairns and Mulgrave, and Ipswich and Morton. These amalgamation proposals were largely based on views about communities of interest, urban overspill into rural areas, and improved infrastructure (Sproats 1998; Tucker 1997).

Finally, in NSW and Western Australia the process of structural reform has been somewhat more subdued. In the case of NSW this is largely due to an earlier series of reforms which reduced the number of councils by more than 50 percent since Federation. For example, a round of amalgamations in the 1970s substantially decreased the number of non-metropolitan councils by amalgamating 34 regional urban municipalities and surrounding rural shires into 15 larger bodies. In common with South Australia, the state government has stressed the importance of voluntary amalgamations, although additional voices were raised. For instance, the Building Owners and Managers Association recently called for the amalgamation of around 45 metropolitan Sydney municipalities into 14 'super councils' and a separate council for the Sydney CBD. In addition, the NSW Local Government and Shires' Association has developed a Local Government Development Program (LGDP) which provides councils with facilitators to assess the net benefits of co-operative service provision, resource sharing, joint service delivery enterprises, boundary change and amalgamation. However, considering NSW local governments' long history of regional voluntary co-operation (i.e. Regional Organisation of Councils (ROC), initiatives such as the latter are unlikely to be felt in radical structural change (Chapman 1997b).¹³

In Western Australia, structural reform is a focus of interest for the Local Government Structural Reform Advisory Committee (SRAC). Topics for discussion included issues relating to representation, community interest, financial considerations, comparative service costs and economies of scale, benchmarks and best-practice, co-operative arrangement and resource-sharing. In its report, the SRAC (1996: iv) noted that while there was "scope for some rationalisation of boundaries, there is no justification for a wholesale Government-driven agenda of local government amalgamations". The Committee reasoned that Western Australian councils generally have low levels

of administration per capita, low levels of debt and a relatively high degree of financial self-sufficiency, although this varied by locality. However, the report (SRAC 1996: viii) also urged councils:

[T]hat fail to meet more than one of the three viability criteria – where administration expenditure is more than 10 percent of expenditure; where debt service [is] more than 33 percent of rate income; and financial assistance grants [are] more than 50 percent of total income – [to] make a close examination of their viability, operations and options for structural reform.

The SRAC Report compared the administrative costs of 84 councils in the wheat-belt and south-west of the state with a grouping into 26 units, as well as benchmarking metropolitan councils. Notional annual savings were reckoned to be from around \$8.5 to \$21.4 million in rural areas with a further \$15.8 to \$53 million in urban areas. Currently the Local Government Advisory Board is examining the preliminary feasibility of ‘doughnut’ amalgamations (regional centre councils with their surrounding shires) in Albany, Bunbury, Geraldton, Northam, Mandurah and Narrogin.

Accordingly, the pressure for structural reform in Australian local government, despite being sporadic, is pervasive. The process has intensified during the 1990s in association with the general program of legislative and microeconomic reform, and cannot be divorced from the pressures for accountability, transparency, effectiveness and efficiency found in this program. Pressures for reform have relaxed somewhat in Victoria, South Australia and Tasmania after what has been some eighty to ninety years of imperviousness to reports calling for structural change. Of the remaining states, pressure would appear to be strongest in Western Australia where local government jurisdictions per unit of area and population are clearly inconsistent with the other states. For example, Western Australia covers a third of the continent, has 23 percent of Australia’s councils, and only 9.6 percent of Australia’s total population. However, amalgamations are unlikely to be viable for sparsely populated councils in remote areas of Western Australia, and in the case of north-western NSW, western Queensland, and the Northern Territory. Nevertheless, the history of structural reform in Australia has shown that objective rationale are not the sole determinants of amalgamations, and any future structural changes must be examined in light of state/local relations, amongst other factors.

A number of themes emerge from the process of structural reform in Australian local government. First, in all states a critical factor underlying structural reform has been purported economies of scale. This theme has been extensively promoted in the Victorian reform process (Sproats 1997; Vince 1997). However, although much of the literature is ambivalent about the benefits to be gained from mergers, some commentators suggest that “economies of scale in administrative costs may be achieved up to a certain point, though there is disagreement over when the point of diminishing returns is reached” (Witherby, Marshall and Dollery 1997: 118). Similarly, it is contended that economies of scale may vary across the range of services provided at the local level. For example, Travers, Jones and Burnham (1993: 54) concluded that:

Larger authorities were, for some services or parts of services, apparently able to secure provision at lower costs than smaller ones, while in other services, smaller authorities appeared more cost-effective. In short, size may matter for some services or parts of services, but not in a way which systematically answered the question ‘what is the right-size of authority to provide a particular service?’.

A second theme is the concept of ‘communities of interest’ that has been widely used by state inquiries in the course of their deliberations. Although advocated in a number of inquiries, especially in Queensland, Witherby, Marshall and Dollery (1997: 119) have argued that its validity is questionable “since it is always possible to discover communities of interest that conform to preferred boundary reforms”. The final theme is the relative lack of attention directed to alternatives to amalgamations in structural inquiries (Vince 1997). For example, only in a small number of states has the concept of ‘resource sharing’ been widely promoted during recent reforms (Witherby, Marshall and Dollery 1997; Dollery 1997) (see, for instance, Western Australia, and to a lesser extent, Queensland) and only in NSW has regional co-operation been universally adopted.

Workplace reform

In so far as the pressure for workplace reform in local government can be isolated from the overall program of microeconomic reform in the Australian public sector, the primary impetus for workplace reform was the 1989 National Review of Local Government Labour Markets (NRLGLM) (Sproats 1998). The major aims of this review were: (i) to recommend steps to improve the supply of skilled labour to meet the needs of local government; and (ii) to identify ways in which local government can improve its employment practices so that there are better career opportunities, more meaningful and

rewarding jobs and higher productivity. The review concluded that there were a range of barriers preventing employment flexibility and efficient personnel management in local government. Key issues identified by the review included: (i) lack of training opportunities and a planned approach to human resource development; (ii) outmoded recruitment, staff development and equal employment opportunity practices; (iii) inappropriate internal organisation structures within local government; (iv) few clear career paths due to a large range of job classifications and barrier preventing internal mobility; (v) lack of portability of superannuation and other benefits; and (vi) government regulation of occupations, in particular, legislative requirements for statutory positions.

Martin (1997: 217) argued that the review had two main effects on the process of workplace reform in local government. First, it “legitimised action by state departments of local government for developing strategies [concerning] human resource development, recruitment and staff development processes ... [and] determining new ways of designing local government organisations away from professional or occupationally-based structures” (Martin 1997: 217). For example, in NSW where the pace of workplace reform has been fastest, a new four-level award for local government employees based on skill categories replaced six existing awards focused on job classifications. Second, Martin (1997: 217) has argued that the review of local government labour markets “represents the last national attempt to develop an industry level, strategic approach to human resource management”. The strategic intent set out in this plan, and as agreed by all state and territory ministers for local government, provides a benchmark with which to assess the extent of workplace reform in local government.

The deregulation of local government labour markets has been evidenced in a number of additional ways. Firstly, many restrictive employment strategies have been removed (Sproats 1998). For example, managerial positions in local government are increasingly available to professionals other than those previously prescribed in regulated statutory positions (i.e. town clerk, engineer, planner, health surveyor). This has meant an increase in cross-disciplinary employment within local government, and an increase in the number of CEOs from the private sector taking up positions in local government. However, “at this stage the shift has not been widespread and some of the new CEOs have stayed for only one term” (Sproats 1998: 10). Secondly, the tenure of local government employees has changed. For example, in NSW senior management staff must be employed under contract with maximum length of five years. Sproats (1998: 11) has observed that this represents a

particularly “steep learning curve for many senior local government staff used to long-term job security”.¹⁴

Financial reform

The final major trend in Australian local government is the process of financial reform. Efforts aimed at financial reform have primarily focused on the implementation of the external reporting requirements of the Australian Accounting Standard *AAS27 Financial Reporting by Local Government* (1990). This standard was ostensibly introduced to allow local governments to move from a heavily regulated reporting system, based on traditional fund accounting, which emphasised cash flows, to a more business-orientated approach based on accrual accounting. Detailed reviews of the revised system are provided by Goyne (1993) and Thompson (1994).

The new approach requires councils to value all assets, account for potential expenditures and liabilities, provide for depreciation charges, and accrue adequate funds for the maintenance of assets (NOLG 1992). This has involved councils in identifying, classifying, assessing, and valuing all community infrastructure and resources. It has been argued that the implementation of *AAS27* will: (i) meet the requirements of an expanded concept of accountability (as specified in the general program of microeconomic reform); (ii) result in effective asset management; and (iii) provide meaningful information on the full cost of a council’s individual activities and programs (Bishop 1997: 174). For example, in NSW councils are now required “to report on the condition of physical assets, gaps between that and satisfactory levels, how the gaps will be bridged, and how the assets will be maintained at the satisfactory level” (Sproats 1998: 13). However, apart from the well-known limitations of accrual accounting, it has also been argued that process of financial reform and the stated objective of enhancing accountability is largely incomplete even under *AAS27*; that is, until concerted efforts are made to more fully investigate financial management practices and management accounting processes in local government (Bishop 1997: 188).

Concluding remarks

It would appear from the foregoing discussion that Australian government is still in the throes of ongoing and fundamental change. Much of this change appears to be of the “top-down” variety, chiefly instigated by state governments but also with strong Commonwealth government

encouragement. Despite the pervasiveness of this reform process in terms of the functions of local government, and insofar as it continues apace in all states and territories, it can be argued that in some respects its application is uneven. For example, whereas Victorian local government has undergone massive compulsory consolidation with a concomitant drastic reduction in the number of councils, the process of amalgamation in NSW is still voluntary with much greater autonomy for individual local authorities, and very little consolidation has taken place. Similar differences in the application of reform programs to other areas of local government activity, such as workplace reform, are also apparent between the states and territories. Whether the myriad of reform initiatives achieve their intended objectives of accountability, transparency, efficiency and effectiveness remains to be seen, despite several favourable early indications.

Endnotes

¹ Tucker (1997: 92) contends that Wensing's (1997a; 1997b) suggestion that the catalyst for the overhaul of Queensland local government legislation was the EARC and CJC is incorrect, since work on these projects commenced some two years before the parent Fitzgerald Inquiry.

² The NSW Independent Commission Against Corruption (ICAC) also includes the operation of local government in its terms of reference.

³ The parties to the Competition Principles Agreement (1994) are the Commonwealth, and the six state and two territory governments. Under Section 7(1) of the Agreement, the principles set out in the Agreement will apply to local government, with each State and Territory Party being responsible for the application of these principles.

⁴ Competitive compulsory tendering is not just an Australian phenomenon. Moves to implement CTC in local government internationally are most advanced in New Zealand and the United Kingdom. In New Zealand, local authorities were able to provide their services through companies, partnerships, trusts and incorporated societies to provide services on a commercial footing. In order to receive road subsidies local authorities were also required to apply competitive pricing procedures through a separately constituted internal business unit, a local authority trading enterprise, or a private contractor. In the United Kingdom, CCT principles have been applied in local authorities since 1980. Initially only applied to a proportion of construction and maintenance work, CCT provisions were extended in 1988 to include garbage collection, street and building cleaning, vehicle and building maintenance, and the management of sport and recreation facilities. The new provisions also addressed anti-competitive behaviour, preventing the restriction, distortion, or prevention of competition when preparing contract specifications or awarding a contract.

⁵ In its original policy statement, the NSW Government (1997: 82) indicated that it "has no plans to apply the principals of structural reform to local government, beyond those measures that are integral to the application of competitive neutrality". In regards to the CPA's provisions for third party access to essential infrastructure, the NSW Government (1997: 83) has also noted "to date, no local councils appear to own or operate services that require the application of a State based access regime. As such, their services will be subject to the generic regime in Part IIIA of the *Trade Practices Act*".

⁶ The Tribunal (IPART 1998: 62) concluded that “some of the business and commercial activities undertaken by council (e.g. saleyards, caravan parks, airports, showgrounds, land development) may entail significantly greater risk than ‘core’ activities such as planning, road maintenance and waste disposal. In the Tribunal’s view, councils should specify a clear objective and performance indicators for each activity. Commercial activities should be accounted for separately from other council activities (‘ringfencing’)”.

⁷ Most states have urged councils to separate their activities into two categories. The first category requires the imposition of taxes or tax equivalents, debt guarantee fees, compliance with regulations, or corporatisation where appropriate. The second category requires full cost attribution for significant businesses with a broad range of activities. To separate these two categories, most state governments have used turnover thresholds for council business activities. In NSW the turnover threshold is \$2 million, \$5 million in Queensland and \$2 million in South Australia (or employing assets in excess of \$20 million). In Victoria, corporatisation of business activities is considered for those entities with an annual revenue of at least \$10 million or a workforce of at least 15, with full cost attribution of all other activities. In Western Australia, entities with turnover in excess of \$200,000 are to be considered for either full cost attribution or corporatisation, whilst Tasmania has not yet established any thresholds.

⁸ In the U.K. about £3 billion of local authority expenditure was contracted in 1986/87, rising to £6 billion under CCT in 1993. In the U.S., some \$US100 billion in local government was contracted out in 1987 or some 27 percent of total municipal services (Industry Commission 1996: 60).

⁹ The Industry Commission (1996) also addressed the possible deleterious effects of CTC on local, especially rural, communities. Possible adverse effects included the loss of employment and income in the region, a transfer out of the region of local government resources, the replacement of a public monopoly with a private sector one, and a reduction in the flexibility of the delivery of services. In order to minimise the subsidisation of external taxpayers to such a region, to provide clarity in the cost of local preferences to itself, and to ensure confidence of bidders in the probity of the tender process, it was recommended that all tender documentation should include preferences for contractors to employ local resources and the additional cost involved in using such resources (Industry Commission 1996: 218).

¹⁰ One major problem is that much of the available data includes expenditure under non-competitively tendered contracts. The Industry Commission uses the term ‘contracting’ to refer to all contracts for service provision, both competitively tendered and non-competitively tendered.

¹¹ A number of other countries have also undertaken structural reforms of local government. In the period 1988 to 1989, New Zealand reduced the number of local government units from 741 (including 500 single purpose bodies) to 87 new authorities. In the U.K., which was to become the intellectual inspiration for amalgamation movements in Australia and New Zealand, over 1300 local authorities were reduced to about 400 in the mid-1970s.

¹² Despite the states being the primary movers for structural reform, the Commonwealth is providing over \$1.25 million under the Local Government Development Plan (LGDP) to help states foster council amalgamations and facilitate other restructuring initiatives. Funds allocated to date include \$400,000 to South Australia, \$250,000 to Western Australia, \$400,000 to New South Wales, and \$220,000 to Tasmania.

¹³ A discussion paper entitled “Proposals to Encourage Regional Co-operation between Local Government Authorities in NSW” was released by the NSW Department of Local Government (NSWDLG) in February 1997. This paper encompassed 18 proposals concerning the key themes of recognition, facilitation and implementation of regional co-operative arrangements, including the recognition of Regional Organisations of Councils (ROCs) in the *Local Government Act (1993)* (NSWDLG 1997).

¹⁴ There has been some media interest and general comment on the number of general managers in NSW leaving their positions and a suggestion that this represents some form of crisis or problem in local council administration. Prior to the introduction of the 1993 *Local Government Act*, the Chief Administrative Officer was the Town/Shire Clerk, who had security of tenure and special qualifications under the then Ordinance 4. With the 1993 Act came contract employment the abolition of special entry requirements, a revised role and powers to control day to day management of council operations (NSWDLG 1997). The most recent NSW Department of Local Government Annual Report (1997: 37) examined the issue of council CEO turnover and argued that the annualised rate of 10.95 percent over the period 1995 to 1997 was “not unusual”. The NSWDLG (1997: 37) concluded that:

Examining individual cases showed a variety of reasons for changes in General Managers including death, retirement, promotion, better opportunities as well as the inability of some to cope with change. In a limited number of cases poor performance and personality conflicts have been the key factors. Initial placement through the recruitment process could have been more effective in some of these cases.

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