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Structural Reform as a Catalyst for Effective Reform**

by

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# **Improving Efficiency in Australian Local Government: Structural Reform as a Catalyst for Effective Reform\***

Brian Dollery, Lin Crase and Sue O'Keefe\*\*

## **Abstract**

Municipal amalgamation has been the main policy instrument of local government structural reform programs in Australia for well over a century. However, council consolidation programs have not achieved the intended cost savings or improved service provision promised by advocates of this means of structural reorganization. This paper considers whether the failure of municipal amalgamation processes to produce significant economic benefits necessarily implies that structural reform programs that invoke consolidation have no place in Australian local government policy. It is argued that 'top-down' state government structural reform policy initiatives carrying the threat of amalgamation constitute an efficient mechanism for evoking optimal 'bottom-up' structural change models.

Key Words: Amalgamation; Australia; local government; structural reform

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## **INTRODUCTION**

In *Municipal Reform in Canada*, Joseph Garcea and Edward LeSage (2005) examine the purposes, processes, politics and final consequences of attempts at local government reform across the different Canadian state and territory municipal systems. In this seminal study, they identified five distinct dimensions of local government reform programs: Structural reforms; jurisdictional reforms; functional reforms; financial reforms; and internal governance and management reforms. This exceedingly useful conceptual taxonomy can also be applied to local government reform programs in other countries, including Australia, even if the range and mix of municipal service provision differs markedly.

Most Australian local government systems have undergone comprehensive episodes of reform that have embraced all of the five elements contained in the Garcea and LeSage (2005) typology. However, a critical characteristic of Australian state government municipal reform programs has been an emphasis on council amalgamations, especially in non-metropolitan areas (Vince 1997). For example, during the 'nineties South Australia, Tasmania and Victoria all experienced municipal consolidation to some degree (May 2003), more recently New South Wales launched a program of compulsory amalgamation, and substantial municipal reform that could involve further structural adjustment is

currently under way or imminent in Queensland, the Northern Territory and Western Australia.

In general, the consequences of structural reform programs in Australia local government have typically consisted of forced and voluntary council amalgamations, the development of a multitude of co-operative organizational arrangements between adjacent municipal councils, especially in regional, rural and remote areas of the country (Dollery and Johnson 2005), as well as boundary changes to the spatial configuration of council responsibilities, largely through recommendations by the various state-based Local Government Boundary Commissions to reform-minded state governments. The Local Government Association of Queensland (2005, p.15) has distinguished between four different models that have been employed in Australian structural reform: 'Merger/amalgamation', where two or more councils are consolidated into a single larger local authority; 'significant boundary change', where the spatial area of municipal jurisdictions is altered substantially; 'resource sharing through service agreements', in which one local authority undertake specific functions for other councils, like strategic planning and waste management; and 'resource sharing thorough joint enterprise', in which municipalities combine their activities in a given service function in order to reap scale economies, such as official record keeping and storing.

In essence, Australian local government structural reform programs rest on the basic proposition that ‘bigger is better’ in the sense that larger councils can not only deliver a given range of services more cheaply, but also increase both the range and quality of service provision itself. Syme Marmion and Company (2005, p.8) has argued that the notion that ‘bigger is better’ has three main pillars. In the first place, ‘there is a general consensus that larger local governments have an improved capacity’ but additional capacity is subject to diminishing returns since it depends ‘on the scale at which local governments operated previously’. Thus ‘for very small local governments, the improved capacity is considerable’ whereas ‘for larger ones, this benefit is less pronounced’. Secondly, what may be termed political economies of scale are present because ‘larger local governments have an enhanced ability to cooperate more effectively on a larger stage’ with Commonwealth and state governments. In particular, ‘the ability to present regional issues in a unified manner is important when lobbying government or attracting business or industry to a region’. Finally, ‘larger local governments have the capacity to employ more skilled and specialist staff to address issues more effectively’ which ‘enhances the local government’s ability to set a strategic direction and develop long-term planning strategies’.

Although not included in the Syme Marmion and Company (2005) tripartite rationale for the belief that ‘bigger is better’, economies of scale are

almost always claimed in state and territory structural reform programs as the major benefit invariably associated with larger municipalities (Byrnes and Dollery 2002a), even though it is routinely confused with scope economies and size economies (Dollery and Fleming 2005). Syme Marmion and Company (2005) justify their rejection of scale economies on grounds that ‘economies of scale, oft cited as one of the principal benefits of amalgamations, have not been clearly demonstrated in any of the reviews of structural reform outcomes although some reviews imply scale benefits’. Nonetheless, ‘many of the savings quoted in reviews relate more to structural changes in the administration of councils, rather than lower costs associated with the delivery of facilities and services’.

However, it has been demonstrated both in Australia and elsewhere that not only do many of the claims asserted by proponents of municipal consolidation lack credible empirical support in the literature, but even the more plausible benefits purportedly flowing from council amalgamations have often been overstated (Dollery and Crase 2004). If this argument is accepted, and the chief weapon in the armoury of Australian state and territory local government policy makers is indeed defective in achieving its intended outcomes, then what can be said of structural reform programs that employ either the threat of forced amalgamation or reward councils that consolidate? Should they be viewed as ill conceived and clumsy efforts aimed at enhancing municipal efficiency that are doomed to failure? Or can

they still be justified on the traditional equity and efficiency criteria of policy analysis? The present paper seeks to answer these questions by exploring the literature on local government reform *per se* and the political economy of radical reform programs.

The paper itself is divided into four main sections. Section 2 briefly summarises the effect of recent council consolidation programs in Australia. Section 3 provides a synoptic review of the Australian and international scholarly literature on structural reform and municipal amalgamation. Section 4 explores theoretical work on the political economy of reform programs and attempts to bring this conceptual corpus to bear on the question of the efficacy of Australian local government structural reform programs. The paper ends with some brief concluding comments in section 5.

## **STRUCTURAL REFORM IN AUSTRALIA**

In its *Local Government National Report 2003-04*, the Commonwealth Department of Transport and Regional Services (DOTARS) (2005, p.66) observed that ‘a key feature of Australian local government reform has been the use of council amalgamations as the primary policy tool in the search for more cost effective local services’. Moreover, during ‘the 80 years from Federation to 1991, the number of councils in Australia fell by over 20 per cent’ and ‘in the 13 years since 1991, council numbers have fallen by a further 27 per cent’. An aggregated

perspective on the impact of structural reform through municipal consolidation programs on the absolute number of local authorities by state and territory is provided in Table 1.

**Table 1: Local Government 1910-2004 by State and Territory**

<b>State</b>	<b>Councils 1910<sup>a</sup></b>	<b>Councils 1991<sup>a</sup></b>	<b>Councils Sept. 2001<sup>b</sup></b>	<b>Councils Sept. 2004<sup>c</sup></b>	<b>% change 1991-2004</b>
NSW	324	176	172	152	-13.6
Vic.	206	210	79	80	-61.9
Qld	164	134	125	125	-6.7
WA	147	138	142	142	2.9
SA	175	122	68	68	-44.3
Tas.	51	46	29	29	-37.0
NT	n/a	n/a	7	7	n/a
<b>Total</b>	<b>1067</b>	<b>826</b>	<b>622</b>	<b>603</b>	<b>-27.1</b>

*Notes:* <sup>a</sup> Sproats (1996); <sup>b</sup> Information provided by state local government associations and individual councils; <sup>c</sup> Totals exclude indigenous and other local governing bodies receiving federal government financial assistance grants.

*Source:* *Local Government National Report 2003-04*, Table 3.2.

It is evident from Table 1 that in the post-1991 period the most radical restructuring has occurred in Victoria with a 61.9 per cent fall in the number of councils, followed by South Australia with a drop of 44.3 per cent, and then Tasmania with a 37 per cent decrease. The most recent episode of structural reform took place in New South Wales, with its program of forced amalgamation; although Table 1 shows a decline of only 13.6 per cent in total municipal councils, this probably understates the final numbers involved, since the process is not yet complete. Moreover, as we noted earlier, local government reform programs have been initiated in Queensland, the Northern Territory and Western Australia. We



can thus anticipate that the impact of these programs is likely to be reflected in future numbers of local authorities in these three local government systems.

## **THEORETICAL AND EMPIRICAL PERSPECTIVES ON MUNICIPAL AMALGAMATION**

We have seen that the proposition that ‘bigger is better’ in local government has informed Australian local government policy formulation for a very long time. Furthermore, advocates of municipal amalgamation typically contend that existing empirical evidence supports this proposition. For instance, in its 1997-98 *Local Government National Report*, the Commonwealth National Office of Local Government (1998, pp.51-2) argued that the Commonwealth government financially assisted structural reform in local governance involving municipal amalgamation for three principal reasons. Firstly, ‘larger councils have a more secure and adequate financial base; are better able to plan and to contribute to economic development; are more effective community advocates; and interact more effectively with government and business’. In essence, this argument invokes the notion that small local authorities lack administrative and technical capacity compared with larger municipalities. Secondly, because the Commonwealth Financial Assistance Grants constitute about ten per cent of council income, councils must ‘deliver value-for-money services to local communities’, and because ‘structural reform delivers economies of scale and permits councils to

employ a wider range of professionals’, council amalgamation will generate a greater range of services and improved quality of service. Finally, the 1997-98 *Report* argues that structural reform is pivotal since ‘without change, councils face the possibility of an ever-diminishing role as individual services are contracted to the private or voluntary sectors, while other concerns, such as the environment, are addressed by special interest groups or agencies’, which can ‘undermine local democracy and reduce service integration’. The 1998-99 *Local Government National Report* (1999, p.51) added a fourth argument that ‘an important advantage of structural reform is that money stays in the community’ since ‘money that would have been spent on council depots or stores or on administration can be spent instead on service improvement or infrastructure for the benefit of the local community’.

In support of these empirically unsubstantiated arguments, the 1997-98 *Report* (1998, p.52) maintained that ‘amalgamations have saved the community money’, noting that the Victorian government claimed a saving of ‘about \$160 million a year or about \$1 billion over the four years since amalgamation’ in its 1993 structural reform package. However, it did concede that in the Victorian case that ‘it is difficult to isolate the impacts of amalgamations in Victoria from the impacts of other elements of the reform process’ (Commonwealth National Office of Local Government 1998, p.56), an observation strongly endorsed by Allan

(2003). It also cited 'recurrent savings' in South Australia 'estimated at \$20 million per annum'. Claims made in the *1997-98 Report on South Australia* apparently originate with the *South Australian Local Government Boundary Reform Board January 1996 – September 1998 Report* (1998), where it was observed that an estimated \$19.4 million in gross recurrent savings would result from the South Australian structural reform program, together with anticipated 'one-off' savings of \$3.9 million - a trivial percentage of the total South Australian local government budget.

However, the *1997-98 Report* did acknowledge a negative dimension to structural reform, albeit with several caveats. For example, it noted that 'structural reform does have some perceived negatives', including 'diminished communities of interest and voter representation', potential 'dominance of one area over another' and attendant 'loss of identity'. Moreover, the *Report* acknowledged that 'amalgamations are unlikely to be viable for sparsely populated councils in remote areas', although it added that many rural shires that 'serve very small populations over relatively small areas which are not in remote localities' would stand to gain from amalgamation with adjacent councils because 'larger and better resourced councils' are able to 'better identify community needs', 'better articulate community views', 'improve community involvement in decision making', 'boost local economic development', 'take a more strategic approach to urban design and

land use planning and sustainability of council-owned infrastructure’, and ‘create a greater sense of community cohesion and well being’.

All of these claims have been contested. For instance, (Allan 2003, p.75) has argued that despite exaggerated claims by advocates of the South Australian and Victorian municipal amalgamation programs in 1990s, the financial outcomes of these programs have been disappointing. Whereas the Victorian state government claimed that its restructuring process would yield direct cost reductions of 20 per cent, the result has been 8.5 per cent, mostly from the implementation of competitive tendering and not consolidation. Similarly, the South Australian government promised savings of 17.4 per cent, but only achieved 2.3 per cent. Moreover, these cost reductions did not include the exorbitant indirect costs of council amalgamations.

These particular cases accord with the thrust of both international and Australian empirical literature on the question of the economic efficacy of municipal amalgamation. For example, in his *Merger Mania*, Andrew Sancton (2000, p.83) assessed the economic results of municipal amalgamation programs in Australia, Britain, Canada and New Zealand, and concluded that ‘the efficient delivery of municipal services does not require large municipalities’. Similarly, in a study of the relationship between the costs of service provision and municipal size in the United States, George Boyne (1998, p.252) concluded that ‘the broad

pattern of evidence suggests that lower spending is a feature of fragmented and deconcentrated local government systems', while 'consolidated and concentrated systems tend to be associated with higher spending. Moreover, in their analysis of the international literature on the results of municipal amalgamation programs, Dollery and Crase (2004, p.274) contend that 'there are scant grounds for anticipating substantial financial benefits to flow from amalgamation, except possibly in terms of local government capacity and scope economies'. In his evaluation of Australian evidence, Allan (2003, p.80) established that 'at the administrative level the efficiency and effectiveness of a local council is not a function of size' and 'all the empirical evidence suggests that big is not better when it comes to local government'.<sup>1</sup>

Why does structural reform centred on local government consolidation have such a poor record in achieving a reduction in the cost of municipal service delivery? In their analysis of the Australian dimensions of the problem, Dollery and Crase (2004) have argued that three main factors account for the failure of council amalgamation programs to reduce costs significantly. Firstly, the expectation that substantial scale economies exist and can be exploited by larger consolidated councils has proved illusory because no uniform pattern of economies of scale obtains across even the relatively narrow 'services to property'

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<sup>1</sup> See also Allan (2001), Bish (2000), Dollery (1997), May (2003), Oakerson (1999), and Thornton (1995).

range of services provided by Australian councils. For instance, it is most improbable that the optimal service district for libraries will coincide with, or even resemble, optimal service districts for domestic garbage collection, public parks, or sewage treatment services (Dollery 1997). Accordingly, whereas bigger local authorities may secure scale economies in some services, they will also experience diseconomies of scale in other areas. Sancton (2000, p.74) has put the problem in a nutshell: ‘There is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas’. In a review of empirical evidence on scale economies in local government service provision, Byrnes and Dollery (2002a, p.405) concluded that while ‘advocates of amalgamation have based their arguments on the proposition that substantial efficiency gains would flow from the formation of larger local authorities, research on economies of scale in local government does not support this proposition’.

Secondly, even if substantial scale economies are present for fiscally important services that absorb a significant proportion of Australian council operating revenues, this still does not provide a comparative advantage to municipal amalgamation over other forms of inter-council engagement, such as regional organizations of councils (ROCs) and strategic alliance models, since provision of these services can be separated from their production through the so-called purchaser-provider split and scale economies typically only arise during the

production phase. Thus, councils too small to achieve scale economies in these service areas on their own can still achieve the financial benefits of scale economies by operating the services in partnership with other councils or purchasing the service in question from public agencies or private firms that are large enough production units to generate economies of scale.

Thirdly, the financial advantages of size that do accrue to larger municipalities through economies of scope and enhanced administrative and technical capacity are generally overestimated. Furthermore, cost savings from these sources tend to be overwhelmed by the high direct costs associated with amalgamation processes themselves, particularly the capital costs of the relocation of council activity and staffing costs in the form of redundancy payments and higher wage bills bargained by employees to meet their altered circumstances.

While these considerations are all focused on explaining the disappointing financial outcomes of council amalgamation programs, it should not be forgotten that numerous other problems also derive from municipal consolidation, particularly in non-metropolitan areas of the country. Foremost among these are a fall in the vibrancy of local democracy, less political representation and lower public participation, various deleterious effects on local economic development, including decreased economic activity, rising unemployment and the creation of 'ghost' towns and villages, and a loss of 'sense of place' by local people.

## **POLITICAL ECONOMY OF LOCAL GOVERNMENT STRUCTURAL REFORM**

Regardless of the accuracy of the diagnosis of the ills of Australian local government, we have seen that treatment by means of structural reform centred on municipal amalgamation has not improved the prognosis in those Australian state and territory systems to which it has been applied. This raises the larger question: What positive role, if any, can structural reform programs play in the Australian municipal milieu? In order to address this question, it is necessary to contemplate the efficacy or otherwise of Australian structural reform programs in the context of the economics and public administration literature on institutional reform.

A substantial economics literature exists on the political economy of reform<sup>2</sup>, although little effort has been directed at analyzing local government reform programs in advanced countries *per se*, with some exceptions (see, for example, Dollery and Wallis 2001). This literature can assist in clarifying the nature of Australian municipal consolidation episodes. For instance, one aspect of this body of thought is the debate between exponents of a ‘big bang’ approach to economic and political reform and advocates of gradualist strategy. In Australian local government structural reform programs, both these schools of thought have been evident. The drastic and rapid Victorian amalgamation process, for example,

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<sup>2</sup> See Rodrick (1996) for an excellent survey of this literature.



epitomised the ‘big bang’ approach whereas the much more consultative South Australian experience typified gradualism.

A second strand of the literature distinguishes between the normative political economy of reform, which emphasizes ‘agenda-setting’ by policymakers and the optimal design of ‘all-or-nothing’ reforms proposals, and the positive political economy of reform, with its focus on the ‘clash’ of interest groups affected by the reform process (Roland 2002). Very useful policy tools have been developed in this literature. For instance, it is argued that potential reformers face two distinct categories of political constraints. *Ex ante* constraints can block the acceptance of a reform package whereas *ex poste* constraints deal with the prospects of a post-policy backlash and possible subsequent policy reversal. Four methods of overcoming *ex ante* constraints have been identified: (a) promising compensation to people who are likely to lose from reform programs; (b) bolstering compensation offers with a credible mechanism for delivering the compensation; (c) making a reform package only ‘partial’ to minimize opposition; and (d) waiting for a deterioration of the *status quo* before embarking on reform.

These constraints and the methods of dealing with them can readily be recognized in Australian local government structural reform programs. For instance, the fact that local government is a statutory creature of state government legislatures, and therefore entirely dependent on the whim of Parliament, means

that no *de jure* constraints are placed on the ability of state governments to impose structural or any other reforms on local; government. Of course, it must immediately be added that *de facto* political constraints of varying degrees of effectiveness are nevertheless present. In general, this means that structural reform programs may be enacted in a ‘big bang’ fashion and take the form of sweeping ‘all-or-nothing’ packages. Examples of this kind of reform include the Victorian consolidation program and the recent New South Wales forced amalgamation process. But even in these cases, evidence of functioning political constraints may be found. Thus, in the New South Wales electorate of Northern Tablelands, held by a Labor-leaning Independent, it can be argued that local councils escaped compulsory amalgamation because the state Labor government did not want to antagonize public opinion and thereby unwittingly end up unseating a political ally. Moreover, the New South Wales government ‘sweetened the pill’ to potential losers in the structural reform process by guaranteeing the positions of all affected municipal non-managerial employees for three years and by providing funding to amalgamated councils in order to assist them in the transition process.

Although these conceptual insights are useful in understanding the nature of Australian local government structural reform programs and the manner of their implementation, they cannot tackle the normative policy question of whether

structural reform processes make any worthwhile contribution. Fortunately, the public administration literature can shed light on this problem.

In his *The Art of the State*, Christopher Hood (2000) proposed a useful taxonomy of four organizational types each with its own characteristic ‘Achilles’ Heel’ bias towards organizational failure. Table 2 provides a synoptic summary of Hood’s typology.

**Table 2: Institutional Weaknesses of Major Organizational Types**

<b>Type of organizational bias</b>	<b>Achilles’ Heel</b>	<b>Makes it vulnerable to:</b>
Hierarchist	Misplaced trust in authority and expertise coupled with high mobilization capacity	Dramatic collapse of ambitious ‘think big’ plans or projects
Egalitarian	Unwillingness to accept higher authority to break deadlocks	Failures stemming from unresolved feuds or collegiality degenerating into coexistence
Individualist	Tendency to put individual before collective benefit	Failures stemming from lack of co-operation or individual corruption
Fatalist	Unwillingness to plan ahead or take drastic measures to extreme circumstances	Failures stemming from excessive inertia and passivity

*Source:* Hood (2000), Table 2.2, p.28

Failures in hierarchical structures ‘are likely to consist of cases where authority or expertise is insufficiently questioned, such that a large edifice comes to be built on shaky foundations, leading to dramatic collapse’ (Hood 2000, p.28). By contrast, failures in egalitarian administrative structures will ‘consist of cases where debate cannot be closed [and] feuding and factionalism goes unchecked,

and the organization collapses amid a welter of mutual recrimination'. Individualist failures 'are likely to consist of cases where private self-interest is put before public or collective interest, for example turning justice or law-enforcement into private-market transactions'. Finally, fatalist failures are 'more likely to consist of inaction or an inability to change course even in extreme and pressing circumstances calling for a response outside normal routine'.

As complex organizations, with a multi-faceted organizational structure embracing economic, political and social elements, local councils are undoubtedly prone to all four types of organizational failure. Indeed, an embryonic theoretical literature already exists on Australian local government failure (see, for instance, Dollery 2003), which has an empirical dimension (see, for example, Byrnes and Dollery 2002b). Dollery (2003) contends that there are five generic sources of local government failure in Australia: 'Voter apathy' stems from the fact that Australian municipal systems provide only a narrow 'services to property' range of local public goods and services and are in any event highly regulated by state and territory governments – citizens thus tend to view them as relatively unimportant in the larger framework of Australian federalism; 'asymmetric information and councillor capture' refers to imbalance in knowledge and expertise between professional managers running local government operations and part-time elected 'amateur' councillors that can result in the 'capture' of elected

representatives by the bureaucracy; ‘iron triangles’ describe the rentseeking coalitions formed by municipal managers, elected councilors and private contractors that is facilitated by the standing committee system typically employed in Australian local government to oversee aspects of local authority operations, like ‘parks and gardens’ and ‘roads and maintenance’; ‘fiscal illusion’ focuses on the complexity of local government finance and the difficulties citizens have in determining the cost of municipal services and whether they are receiving ‘value for money’; finally, ‘political entrepreneurship’ deals with the widespread phenomenon where elected representatives treat local government as a first step in a more ambitious political career and are thus prone to grandiose behaviour aimed at catching the public eye rather than providing local government services effectively. In addition to this literature on Australian local government failure, a statistical analysis of official performance evaluations of individual councils purportedly ‘at risk’ by Murray and Dollery (2005) has demonstrated that all types and sizes of local authorities can be classified as failing on various criteria.

It is not difficult to find instances of hierarchical failure, egalitarian failure, individualistic failure, and fatalist failure in Australian local government. For example, institutional failings derived from the characteristic hierarchical ‘unfounded trust in expertise and authority’, which frequently result in ‘expensive fiascos produced by “groupthink”, erroneous over-confidence in “think big”

solutions, excessive trust in top-level leadership, in the authority of (natural or social) or professional wisdom' (Hood 2000, p.35), abound in contemporary Australian councils, typically making headlines in the form of the collapse municipal investments in public-private partnerships, such as the 2004 debacle in the Liverpool Council of western Sydney. Similarly, one of the most common reasons for the dismissal of elected councils and the installation of state-government administrators resides in 'deadlocked' councils riddled by internal dissention, division and internecine conflict, illustrating the importance of egalitarian failure. Moreover, individualistic failures are legion in local government systems throughout the world, most often in the manipulation of zoning regulations for the private profit of elected representatives, salaried bureaucrats and their accomplices in property development.

Despite these caveats, we nonetheless argue that of the four taxonomic categories identified by Hood (2000), the fatalist model most closely approximates contemporary Australian local government. Two propositions are advanced in support of this contention. In the first place, the capacity of local authorities in Australian local government systems to respond effectively and swiftly to changing external circumstances is severely circumscribed by the restrictive legislative environment within which they are obliged to operate. For example, environmental and zoning requirements set down in state government legislation

allow individual councils very little latitude for discretion. Furthermore, limitations on borrowing and, in New South Wales at least, an enforced regime of ‘rate pegging’, make it exceedingly difficult for financially strapped councils to make ends meet. In other words, Australian municipal councils lack not only the resources, but also often the legal powers to respond to significant changes in their operating environment. Secondly, as we have seen, work on Australian local government failure indicates that municipal councils are predisposed to certain types of behaviour as a consequence of various factors, including ‘voter apathy’, ‘asymmetric information and councilor capture’, and ‘iron triangles’ (Dollery 2003). In aggregate, these factors can contribute towards an overall institutional lethargy and an attendant incapacity to act decisively. Accordingly, municipal councils as an organizational genre thus fall within the fatalist model.

If this argument is accepted, then it can form the foundation for a general political economy case in favour of municipal reform programs that advance structural reform as a primary engine of change. In terms of this argument, it is the *threat* of structural reform through compulsory amalgamation, rather than the actual implementation of consolidation-based structural reform *per se*, that represents efficacious public policy since it acts as an energizing catalyst to overcome council inertia attendant on its fatalist characteristics. Following the standard public choice presumption that when confronted by involuntary change,

local authorities will act to preserve the *status quo* and thereby their interest in it as much as possible, the announcement of structural reform processes embodying compulsory amalgamation will thus galvanize municipal councils into action aimed at avoiding or at least mitigating the impact of impending amalgamation.

Given the legislative authority state governments enjoy to implement structural reform and dissolve existing councils, three distinct types of reactive conduct can be anticipated on the part of local authorities. In the first place, councils can accept inevitable extinction and reformation as larger consolidated entities, and seek to maximize compensation from the state government through various strategies, including threats of resistance or promises of co-operation. Secondly, following option (b) in the political economy literature outlined above, affected councils can propose alternative structural plans to the state government amalgamation ultimatum in the hope that a ‘partial’ reform package will represent a satisfactory outcome for state policy makers. Finally, councils can mount political campaigns aimed at neutralizing the legal authority of state governments and defeating structural reform in the ‘court’ of public opinion.

In this context, it is interesting to note that all three of these reactive strategies were evident in the initial stages of the New South Wales structural reform program. For example, the Tamworth City Council and several of the small surrounding councils accepted inevitable amalgamation and sought state



government funding to implement this amalgamation. By contrast, the former Murrirundi Shire Council and many of its residents chose the confrontational political option and launched a ‘Bugger off Bob’ campaign that was ultimately unsuccessful. However, other groups of threatened councils, like those involved in the Wellington-Blayney-Cabonne Strategic Alliance and the New England Strategic Alliance, reacted with the formulation and presentation of ‘partial’ structural reform packages that were accepted by the state government.

### **CONCLUDING REMARKS**

This paper has argued that structural reform in the guise of council amalgamation has not lived up to the claims of its architects in terms of delivering substantial cost savings or significantly improved service quality. This outcome should not have been unexpected in the light of the well-documented experience in other local government systems around the globe. The question thus naturally arises; under these circumstances, can structural reform programs involving council consolidation still represent rational public policy?

We have sought to answer this question in the affirmative by developing a rough ‘model’ based on the premise that Australian councils are typically characterized by inertia and a chronic inability to react efficaciously to changes in the economic and social environment. By forcing local authorities to take stock of their situation and obliging them to act decisively, structural reform processes that

threaten (but do not enforce) amalgamation represent an efficient policy instrument for overcoming municipal inertia. Moreover, since the individuals comprising councils are also the most knowledgeable regarding local problems, and thus the most able to formulate efficient solutions to these local problems, the ‘partial’ reform alternatives they create are likely to be superior to the heavy hand of state government imposed amalgamation. In other words, ‘top-down’ state government structural reform policy initiatives carrying the threat of amalgamation constitute an efficient mechanism for evoking optimal ‘bottom-up’ structural change models, providing state governments do not enforce amalgamation and allow local models of inter-council collaboration to flourish.

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