



University of New England

School of Economics

**Enhancing Efficiency in Australian Local Government: an
Evaluation of Alternative Models of Municipal Governance**

by

Brian Dollery and Andrew Johnson

No. 2005-1

Working Paper Series in Economics

ISSN 1442 2980

<http://www.une.edu.au/febl/EconStud/wps.htm>

Copyright © 2005 by UNE. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided this copyright notice appears on all such copies. ISBN 1 86389 932 4

Enhancing Efficiency in Australian Local Government: an Evaluation of Alternative Models of Municipal Governance*

Brian Dollery and Andrew Johnson **

Abstract

Broad consensus exists in Australian policy circles on the need to enhance the efficiency of local government. However, the question of most appropriate model for local governance remains controversial. Quite apart from larger amalgamated municipalities, a range of promising alternative options can be identified that may be able to effectively combine more efficient service delivery with vibrant local democracy, including existing small councils, ad hoc resource sharing models, Regional Organizations of Councils (ROCs), area integration and joint board models, virtual local government, and agency models. This paper seeks to identify and evaluate the characteristics of these alternative models.

Key Words: economic efficiency; local government; models of governance

* Disclaimer: The views expressed in this paper do not necessarily reflect the views of the Guyra Shire Council.

** Brian Dollery is Professor of Economics and Director of the Centre for Local Government at the University of New England. Andrew Johnson is an Associate Member of the Centre for Local Government at the University of New England, Acting General Manager for the Guyra Shire Council, and appointed to the Public Sector Centre of Excellence for CPA Australia. He is presently a PhD student at UNE. Contact information: School of Economics, University of New England, Armidale, NSW 2351, Australia. Email: bdollery@une.edu.au.

1. INTRODUCTION

In common with municipal systems in other advanced federal countries, Australian local government experiences intermittent periods of reform as policy makers seek to enhance the efficiency of municipal service delivery. A key feature of Australian local government reform has been its heavy emphasis on council amalgamations as the primary engine in the drive for more cost effective local services (Vince, 1997). Thus, in recent years, New South Wales, South Australia, Tasmania and Victoria have all undergone episodes of municipal consolidation of differing degrees of intensity (see, for instance, May, 2003). However, amalgamation remains a controversial method of achieving local government reform. For instance, some critics contend that it may diminish the vibrancy of local democracy and reduce participation by the citizenry (Allan, 2003). Other commentators argue that most of the claims made by advocates of municipal amalgamation are illusory, especially regarding purported economies of scale (Byrnes and Dollery, 2002), and in any event outweighed by the heavy costs it imposes (Dollery and Crase, 2004). Moreover, available empirical evidence on amalgamation, both in Australia and abroad, suggests that not only does municipal consolidation fail to yield any economic benefits, but that larger local governments are inherently less efficient and thus more expensive (Bish, 2000).

The controversial nature of amalgamation as a means of increasing the effectiveness of council service delivery in Australia raises a number of interesting questions. In the first place, if municipal consolidation is an ineffectual and expensive method of effecting local government restructuring, then why have Australian policy makers persisted with their heavy reliance on amalgamation as the primary method of

improving the operational efficiency of councils? Since it is a relatively simple matter to identify very effective small councils and very ineffective large councils and *vice versa*, it would be appear on *prima facie* grounds at least that size and efficiency are not synonymous in Australian local governance. This intriguing question is not examined here. A second promising line of inquiry is to identify and evaluate alternative models of local governance to the blunt instrument of amalgamation. With some notable exceptions, especially Percy Allan's (2001; 2003) seminal work on 'virtual' councils in Australian local government, very little effort has been devoted to developing structural alternatives to municipal consolidation. There is thus an urgent need to address this question and this forms the subject of the present paper.

In this paper we attempt to identify the range of alternative models of municipal governance that are potentially applicable in the Australian local government milieu, with its strong emphasis on 'services to property'. Moreover, we seek to demonstrate that council amalgamation is only one of several different possible models and it is by no means either the most obvious or most efficient method of enhancing municipal performance.

The paper itself is divided into three main sections. The thorny problem of defining and categorizing alternative models of local governance is tackled in section 2. Section 3 seeks to outline and evaluate alternative models to municipal amalgamation. The paper ends with some brief concluding remarks in section 4.

2. THE CLASSIFICATION OF MODELS OF LOCAL GOVERNANCE

An immediate problem facing any analysis of alternative models of local governance is the identification and classification of the models under scrutiny. While considerable difficulties are involved in resolving this problem, at least two factors are especially important. In the first place, real-world municipal systems are exceedingly complex. For instance, Stewart Bailey (1999, p.13) has noted that ‘there are substantial differences in the array of powers attributed to local governments in different countries and territorial administration systems vary enormously in terms of administrative structures, political cultures, and the dynamics of central-local relations’. In an analogous vein, Dollery and Wallis (2001, p.1) observed that ‘whereas some local governments deliver a complex array of goods and services, including education, health and social services, especially in the European context, other municipal systems, particularly in Australia and New Zealand, focus much more narrowly on “services to property”, like roads, sewage and water’. Similarly, municipalities range in size from vast conurbations with budgets measured in billions of dollars to their more modest rural cousins containing a mere handful of residents. Secondly, despite considerable effort, scholars have struggled to produce satisfactory generic models of government as a whole (Mueller, 2003); not surprisingly this is reflected in the literature on local government too, which has attracted much less scholarly attention than its more august central and state government counterparts.

Nevertheless, several approaches have been identified that can assist in the classification of local governance models potentially applicable to the Australian municipal milieu. For example, Hirschman (1970) developed the concepts of ‘exit’ and

‘voice’ as alternative means by which consumers of municipal services can influence the provision of these services. Whereas ‘exit’ refers to the capacity of citizens to choose between alternative producers of specified services, ‘voice’ deals with the ability of consumers to express their preferences for a different mix or quality of service. Using these concepts, it is possible to categorize Australian models of governance along a continuum. For instance, effective and independent political representation, often associated with small autonomous councils, may enhance the efficacy of voice in municipal service delivery. In an analogous manner, the existence of numerous adjacent councils across large cities surely facilitates the effectiveness of actual and potential exit as a means influencing municipal behaviour.

Bailey (1999) has proposed another potentially fruitful approach to the problem. Drawing on a fourfold taxonomy of conventional generic models of government (Bailey, 1995) that encompasses the ‘benevolent despot’ model (where paternalist government decides on service mix and delivery), the ‘fiscal exchange’ model (where government provision of services depends exclusively on voter’s willingness to pay taxes), the ‘fiscal transfer’ model (where public sector service provision is an instrument of social welfare policy), and the ‘leviathan’ model (where ‘despotic self-serving bureaucrats and politicians maximize their own welfare rather than those of national and local citizens’) (Bailey, 1999, pp.13-14), it is argued that ‘though it may not be possible to develop a robust model of local government because of these differing power relationships, nevertheless it is possible to modify the standard models of government in order to reflect the specific features of local government’. Bailey (1999) argues that it is feasible to modify some of these generic models to incorporate at least some of the essential features

of local government. For example, the benevolent despot model transforms into the traditional 'command council' representing 'a rational, paternalistic, hierarchical, bureaucratic machine driven by standardization and economies of scale' (Bailey, 1999, p.15). In an analogous fashion, the fiscal exchange model in municipal governance becomes 'a service-delivery instrument, providing services in response to citizens' and users' demands and tax payments and/or service charges for them'.

A third approach can be specifically tailored to the narrow range of 'services to property' characteristic of Australian local government. The conceptual basis for this approach is founded on the presumption that existing and potential models suitable for Australian local government can be located along a bipolar continuum given by the degrees to which political and operational control can be centralized or decentralized between local councils and the new organizational entity they join. In this schema, operational control refers to the ability to administer and undertake local service provision and delivery, whereas political control focuses on the capacity to make decisions over the domain and mix of local services. By contrast, the degree of centralization indicates the extent of concentration of control vested in the relevant state government. Decentralization indicates the degree of subsidiarity; that is, the maximum feasible degree of devolved decision making prerogatives, in the present case small local councils. This method of classifying alternative models for Australian local government has the decided advantage that it is descriptively accurate: All existing and potential models of Australian municipal governance 'shade into each other' along a continuum of political and administrative control over service provision. For instance, at one end of the spectrum, current small Australian councils represent both fully decentralized political

and operational control, within the legislative confines of their respective state enabling acts. On the other hand, virtual local government enjoys full political control, but relinquishes a substantial degree of operational control to external organizations in service delivery. Area integration models, as exemplified by the proposed joint board model, exhibit lower levels of political control by constituent councils (since some power has been surrendered to the joint board) together with no operational control. By contrast, Regional Organizations of Councils (ROCs) maintain complete local political control and substantial simultaneous operational control. At the other end of the continuum, amalgamated councils concede all political and operational control to the larger new entity to which they belong¹.

Given the apparent advantages of this third proposed method of classifying alternative models of Australian local governance, it is adopted in the present paper. Moreover, the different models discussed below are arranged in the order suggested by this method.

3. ALTERNATIVES TO MUNICIPAL AMALGAMATION

Alternative models of local governance developed for Australian-style “services to property” limited function municipalities can be arranged in accordance with the centralization/decentralization of political and operational control classificatory taxonomy. Thus, at one extreme, existing small councils exhibit a pronounced degree of decentralization of both operational control and political control whereas at the other end

¹ Various scholars have developed alternative taxonomies of models of local governance. For instance, American analyst Byron Katsuyama (2003, p.5) contends that ‘of course, there are a number of alternative service delivery approaches that offer opportunities to reduce costs and improve services. These include private contracting, mutual aid agreements, shared use of facilities and/or equipment, exchange of services, intergovernmental contracting, and consolidation of selected functions’.

of the continuum amalgamated large councils represent instances where their original constituent member councils have surrendered both political and operational control to the new entity. As we move from existing small councils towards various degrees of resource sharing, such as *ad hoc* resource sharing models, formalized Regional Organizations of Councils (ROCs), participating municipalities start trading off decentralized operational control for the economic advantages that flow from shared resource usage. Progressing further in the same direction then requires further trade-offs of political control as area integration models, like joint board models, are adopted. Operational control is steadily relinquished through virtual local governments and agency models until merged small councils concede all control to amalgamated “super” councils.

Existing Small Councils

Despite the fact Australian local government enjoys no constitutional recognition and individual councils are entirely creatures of their respective state government acts, which can be dissolved at the whim of state parliaments (McNeill, 1997), they nevertheless represent the embodiment of Oates’ (1972) ‘principle of subsidiarity’ in the Australian federal system since they are the lowest level of government vested with expenditure and revenue-raising powers. Although Australian local government is characterized by tremendous diversity (Worthington and Dollery, 2001), within the considerable constraints imposed by state government legislature, Australian councils nevertheless enjoy a high degree of political and operational autonomy over their own limited affairs. Political ‘efficiency’ is enhanced by ready and relatively cheap entry and exit by aspirant elected councilors, regular elections are held, and the ratio of elected representatives to voters is comparatively low. Moreover, Hirschman’s (1970) ‘voice’ is also relatively

efficacious through comparatively effortless access to elected councilors, complaints procedures, accommodating local media outlets, and the like. Operational autonomy is simultaneously ensured since elected councils hire managerial, administrative and other staff, determine the delivery of goods and services within the admittedly constraining parameters of enabling legislation, and decide on how to adjust service delivery to meet changed circumstances. Of course, existing small councils are subject to sharp financial constraints in terms of revenue-raising capacity and limitations on grants from the Commonwealth and state governments, as well as apparently inexorable ‘cost-shifting’ by higher tiers of government onto Australian municipalities (House of Representatives Standing Committee on Economics, Finance and Public Administration 2004). However, these constraints would apply *mutatis mutandis* to other models of Australian local governance in any event.

Ad Hoc Resource Sharing Models

The most limited and flexible alternative to municipal amalgamation resides in voluntary arrangements between geographically adjacent councils to share resources on an *ad hoc* basis whenever and wherever the perceived need arises. Resource sharing of this kind can encompass a wide range of possibilities, including specialized employees, such as environmental experts, town planners and skilled consultants, capital equipment, like earth-moving machinery and mainframe computing facilities, administrative services, such as information technology systems, and entire operational services, like domestic garbage removal and disposal. The driving force behind these arrangements is all too familiar: It derives primarily from the continuing dire financial circumstances confronting Australian local government; reduced funding from state and Commonwealth

governments, ongoing cost-shifting from the higher tiers of federal governance, legislative constraints on municipalities to increase their own revenue income from rates, fees, and charges, and increasing community expectations regarding the local public goods and services provided by councils (Johnson, 2003). The economic imperative to reduce the costs of service delivery has provided a powerful incentive for municipalities, and especially smaller regional and rural councils, to investigate any potential advantages that may flow from entering into voluntary resource sharing agreements with their neighbours. However, it must be added that cost saving alone has not been the only motive for *ad hoc* resource sharing. It has also been used to improve the quality of existing services as well as augment the range of current service provision.

Ad hoc resource sharing enjoys several advantages compared with other methods of enhancing local government efficiency. In the first place, it arises spontaneously between volunteering councils, without the need for any centralised legislative change or state government administrative directives. On *a priori* grounds it can thus be expected to embody detailed localized knowledge with the real prospect of genuine cost savings for the councils involved. If this were not the case, adjacent councils would presumably not enter into any *ad hoc* agreements. Moreover, the inherent flexibility of this kind of agreement means they can be applied to specific projects or to a more general range of activities. Secondly, *ad hoc* resource sharing arrangements do not compromise the independence of participating councils in any way and thus do not impinge on either democratic representation or citizen participation. Thirdly, where *ad hoc resource* sharing arrangements do not bear sufficient economic fruit, they can be terminated readily

through the consensual agreement of participating municipalities without incurring significant costs.

The advantages attendant upon the innate flexibility of *ad hoc* resource sharing arrangements must be set against their possible shortcomings. Indeed, the very fact that voluntary agreements can easily be modified or terminated makes them vulnerable to the idiosyncratic characteristics of local governance (Dollery, 2003b). For example, the election of new councillors or the employment of a new general manager can disrupt and even destroy the basis for *ad hoc* agreements because they do not have any solid institutional foundations. Moreover, for the same reason, temporary disputes over the operation of *ad hoc* arrangements can readily disrupt or even end their smooth operation.

Regional Organizations of Councils

Regional Organizations of Councils (ROCs) are voluntary groupings of neighbouring councils that have existed continuously in Australia since 1922. They typically consist of between five and fifteen councils, with considerable diversity in both geographic size and population, and are usually financed by a set fee from each member council as well as a pro rata contribution based on rate income, population, or some other proxy for size. ROCs are governed by a board consisting of two members from constituent municipalities, normally the mayor and one other representative, characteristically an elected councilor or a general manager, supported by either an administrative structure or specialist committees (Dollery and Marshall, 2003).

Membership of a ROC confers several potential benefits to participating councils. In the first place, meetings encourage the free exchange of common concerns and potential solutions and tend to engender a sense of common destiny. Secondly, joint

forums foster the development of common policy positions that will, in all likelihood, be better informed as a consequence of the combined expertise of member councils. Thirdly, ROCs facilitate the coordination and rationalization of the activities of member councils. Fourthly, ROCs promote cost saving joint purchasing, resource sharing, and other mutually beneficial schemes that may reap economies of scale, economies of scope and enhance capacity. Finally, ROCs can play a critical political role as a regional lobbying group interacting with state and Commonwealth governments (Marshall *et al.*, 2003).

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

Area Integration or Joint Board Models

The Shires Association of NSW (2004) has recently developed a ‘joint board model’ of local governance in response to the forced amalgamation program adopted by the NSW state government immediately following its re-election in 2003. In an effort to avoid enforced council amalgamation and to ‘retain economic local government activity to the fullest extent possible in country areas’, the Shires Association of NSW (2004, p.2) proposed the joint board model based on the retention of autonomous existing councils

and their current spatial boundaries, but with a shared administration and operations overseen by a joint board of elected councilors from each of the member municipalities. In essence, constituent councils would each retain their current political independence, thus preserving extant local democracy, whilst simultaneously merging their administrative staff and resources into a single enlarged bureau, in an attempt to reap any scale economies, scope economies, or other benefits that may derive from a bigger administration.

It should immediately be observed that the proposed governance structure in the Shires Association of NSW (2004) draft document *A Joint Board Model* is by no means new in either Australian local government or the international literature. Indeed, the joint board model seems to represent an extension of the ancient English system of rural parish councils attached to the administrative apparatus of larger municipal corporations that was first applied to Australian local government by Williams (1988), and then elaborated by Ernst and Young (1993) and Thornton (1995) as an ‘urban parish’ model in the context of the South Australian amalgamation program in the 1990s.

Governance models in the area integration tradition, including the joint board model, rest on two assumptions that present policy makers with a dilemma. In the first place, small councils usually facilitate effective representation, but are presumed not use the resources at their disposal in an efficient manner. On the other hand, large municipal authorities are deemed to diminish effective democratic representation and at the same time typically employ resources relatively effectively. In contrast to amalgamation that deals with this trade-off by placing a greater priority on resource efficiency concerns than on questions of representational effectiveness, thus generating bigger local governments,

the joint board model seeks to ‘break’ the ostensible trade-off between democracy and efficiency by retaining the desirable democratic characteristics of small councils and agglomerating their separate administrative structures in order to capture purportedly efficiency enhancing attributes of larger municipal bureaucracies. Thornton (1995, p.1) argued that this is best achieved by area integration models that sever the ‘traditional connection between physical function and geographical boundary, thus capturing the best of all worlds: functional areas big enough to provide economies of (large) scale for the delivery of services and regional coherence, together with political areas small enough to provide intimacy of (small) scale for effective representation and sense of community’.

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

Additional advantages ascribed to area integration models include ‘increased accountability, public scrutiny and citizen involvement’; ready access to elected representatives; the separation of policy decision making from policy execution; realization of scale and scope economies; social cohesion deriving from small constituent

communities; a 'balance between the social and economic dimensions of municipal governance'; a higher degree of 'policy coherence' over a larger spatial area; greater regional participation; a 'respect for history of communities and preservation of sense of place'; and avoidance of the pooling of reserves and accumulated debts between 'provident' and 'improvident' member councils (Thornton, 1995). Moreover, under the Joint Board model every constituent council would continue to enjoy full autonomy; 'it would have the power to determine its range of works and services, and to determine its financial plans to provide the necessary funding' (Shires Association of NSW, 2004, p. 7).

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

Virtual Local Governments

In its Australian formulation, the basic model of virtual local government was developed by Percy Allan (2001) in his *Secession: A Manifesto for an Independent Balmain* and further refined by Allan (2003), Dollery (2003a) and May (2003). In essence, the model rests in two fundamental presumptions about the nature of Australian local government. Firstly, small councils, with limited populations and a low ratio of elected representatives to constituents, provide superior decision-making units in terms of the appropriateness

and effectiveness of service provision since they are 'closer to the people'. Secondly, drawing on the work of Oakerson (1999) on the relationship between the degree of municipal fragmentation (i.e., the ratio of local government entities to population in given metropolitan areas) and the per capita cost of services, Allan (2001) contends that large councils may enjoy economies of scale in the provision of some, but not all, local public goods and services. Allan (2001, p.27) concludes that 'the main lesson to draw from Oakerson's research is that a distinction should be made between the provision of council services and their production' since 'the long held assumption that a council must perform both tasks is wrong'.

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

A virtual council tailored to Australian conditions would thus consist of two main elements. In the first place, relatively small councils would encompass elected councilors and a small permanent secretariat. They would decide on questions of policy formulation and monitor service delivery to determine its effectiveness. In a specific metropolitan area several small adjacent virtual councils would share a common administrative structure or 'shared service centre' that would provide the necessary administrative capacity to undertake the policies decided upon by individual councils. Service delivery

itself would be contracted out either to private companies or to the service centre depending on the relative costs of service provision and the feasibility of using private firms.

Agency Models

Australian local governments enjoy no constitutional recognition and are thus entirely creatures of their respective state and territory government acts. This means *inter alia* that state governments have final responsibility for efficacious delivery of municipal services. For example, when particular councils ‘fail’ for various reasons, including inept and corrupt conduct or financial incapacity, then the state government in question can intervene by dissolving an elected council and appointing an administrator to run the council for a designated period. In this sense, municipalities are, in effect, service delivery agencies for state governments that possess a high degree of autonomy over a defined range of functions so long as they carry out their allotted responsibilities adequately.

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

This conception of the role of councils could be termed the ‘agency model’. Under an agency model, municipalities would surrender completely operational control of the services they direct, but at the same time still enjoy political autonomy as elected

bodies for a spatially defined jurisdiction. Thus, all service functions would be run by state government agencies with state government funds and state government employees in the same way as state police forces or state emergency services presently operate. Elected councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions. For instance, domestic waste removal and disposal would be conducted and managed by a state garbage agency, but the actual frequency of garbage removals would be determined by democratically elected councils. With a predetermined 'global budget' for a given council area, individual local governments could express the preferences of their voters in determining the mix of services. Thus, less frequent garbage removal could be traded off against more opulent public parks and recreation zones, depending on the decisions of the council. The composition of municipal services would therefore be chosen by the council whereas the production and provision of these services would be carried out by the respective state government agencies.

In comparison with virtual local government, agency model municipalities would have even less operational control, but roughly the same degree of political autonomy. At least two advantages of an organizational arrangement of this kind can be identified. In the first place, elected and largely amateur councilors could focus exclusively on ascertaining the tastes and preferences of their constituents, without having to struggle with the complexities of actual service delivery, which would be left in the hands of professional specialist bureaucrats. This would capture the respective comparative advantages of both groups; elected representatives could exploit their skills in local 'grass roots' democracy and identify community wants whereas career public servants employ

their professional abilities to operate efficient service delivery systems. Secondly, uniformity in the provision of services might be able to reap scale and scope economies, develop technical capacities, synchronize delivery systems, and enjoy considerable purchasing power.

However, relative to virtual local governments, none of the potential (if sometimes unrealised) advantages attendant upon competition between prospective service providers, drawn from the private sector, public agencies, and voluntary organizations, would accrue to agency model councils (see, for example, Graeme Hodge (1996) for an excellent review of the international empirical evidence on contracting out government services). They would be entirely captive to large state bureaucracies, equivalent to current state education departments or health departments, with a questionable record of cost-effective service delivery.

Amalgamated Large Councils

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

In essence, the case for amalgamation rests on the proposition that ‘bigger is better’ in local governance since large councils provide services more efficiently and this involves only a negligible tradeoff in terms of less efficacious political representation (Soul, 2000).

A concise synopsis of the case for amalgamation has been developed by Katsuyama (2003, p.2): ‘Proponents of consolidation argue that fewer and larger local governments will be more efficient and effective than many small governments [because]

costs can be held down and perhaps reduced through the elimination of duplicative services, personnel, and equipment'. Moreover, 'larger governments may also be able to take advantage of "economies of scale" or lower per-unit costs for government services'. In addition, 'a single unified government will be able to coordinate policies and decisions for activities, such as regional planning and economic development, than several independent governments'. With numerous small councils, 'some services may benefit citizens in adjoining areas who neither pay for the service nor share in the effort involved in its delivery'. Accordingly, "spillover effects" like this will be eliminated when the boundaries of the service area are the same as the boundaries of the taxing jurisdiction', and thus 'the tax burdens within communities can be equalized through the creation of governments that more clearly match area needs. A additional argument overlooked by Katsuyama (2003) but much in vogue in the current NSW amalgamation debate is the notion that representational costs fall in larger councils since there are fewer elected councilors for a given population (see, for instance, Varden (2003)).

The case against amalgamation for Australian local government has been exhaustively examined by Dollery and Crase (2004) and its historical application in Australia dealt with *inter alia* by Vince (1997) and May (2003). In the first place, opponents of municipal amalgamation dispute the existence of significant economies of scale, on both theoretical and empirical grounds (Byrnes and Dollery, 2002). In his *Merger Mania*, Sancton (2000, p.74) has put this argument in a nutshell: 'There is no functionally optimal size for municipal government because different municipal activities have quite different optimal areas'. Secondly, it is argued that while economies of scope may be realized, there are cheaper alternative methods of capturing scope economies, like

ROCs. Thirdly, although amalgamation may well boost administrative capacity, it can also be acquired by other means at a lower cost. Public choice considerations are advanced to argue that more effective representation characteristic of small councils enhances information flows between constituents and voters and thus exposes municipal expenditure to more intense scrutiny by ratepayers. As a consequence, small councils typically produce services at lower per capita costs. With numerous exceptions, this position is strongly supported by the weight of empirical evidence. For instance, after a study of the American evidence on this question, Boyne (1998, p.252) concluded that ‘the broad pattern of evidence suggests that lower spending is a feature of fragmented and deconcentrated local government systems’, whereas ‘consolidated and concentrated tend to be associated with higher spending’. This implies that ‘the technical benefits of large units with big market shares, such as economies of scale and scope, are outweighed by competitive and political costs, such as disincentives toward fiscal migration and problems of scrutiny’. Along similar lines, Sancton (2000, p.75) argued that ‘the public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city-region causes wasteful overlap and duplication’. A final critique of amalgamation emphasizes the deleterious impact that it has on the vibrancy of local democracy, with a higher ratio of elected representatives to voters ‘distancing’ councils from their citizens.

Given the arguments both for and against amalgamation, it seems fair to that the burden of evidence strongly favours opponents of municipal consolidation. Moreover, the recent pattern of local government failures in Australia appears to support the contention that there is no systematic relationship between council size and council efficiency.

4. CONCLUDING REMARKS

In the scholarly literature on local governance, it is widely acknowledged that democratic municipal government can be reduced to three main functions; administration, representation and participation (Jones, 1989). In general, local government restructuring in Australia has focused overwhelmingly on the administrative dimension of municipal operations. Policy makers have sought ‘value for money’ by attempting to enhance the operational efficiency of councils and thereby reduce the per capita costs of service delivery. Notwithstanding strong empirical evidence to the contrary (Byrnes and Dollery, 2002; Dollery and Crase, 2004), an enduring belief that ‘bigger is better’ has meant that amalgamation has remained the major instrument of Australian structural local government reform.

Not only has this emphasis on amalgamation been misplaced, but the stress on administrative efficiency to the exclusion of effective representation and robust participation has also served to obscure the fact that representation and participation play a critical role in the economic efficiency of municipal service delivery. Moreover, complex trade-offs exist between administration, representation and participation that decisively influence both local democracy and council efficiency. For instance, it has been argued that ‘the shorter the line of communication between electorate, bureaucracy and elected representative, the greater the capacity for programs and purposes of a government to remain focused and cost effective’ (Thornton, 1995, p.12). Similarly, the flat management structures associated with small councils bring decision makers into direct contact with those people affected by their decisions and thus reduce the propensity

for large bureaucracies to ‘depersonalize’ policy outcomes, with positive results for efficient service delivery.

This paper has thus sought to demonstrate that numerous viable alternatives exist to the blunt instrument of municipal amalgamation in the quest for greater local government efficiency in Australia. These alternative governance models possess different structural attributes that influence administration, representation and participation in different ways. It is therefore important that the local government policy community in Australian begin a thorough investigation of the characteristics of these alternative models. The present paper has attempted to lay the foundation for just such a debate.

REFERENCES

- Allan, P. (2003). “Why Smaller Councils Make Sense”, *Australian Journal of Public Administration*, 62(3), pp. 74-81.
- Allan, P. (2001). *Secession: A Manifesto for an Independent Balmain Local Council*, Balmain Secession Movement, Balmain.
- Bailey, S. J. (1999). *Local Government Economics: Principles and Practice*, Macmillan, London.
- Bailey, S. J. (1995). *Public Sector Economic: Theory, Principles and Practice*, Macmillan, Macmillan, Basingstoke.
- Bish, R. (2000). *Local Government Amalgamations: 19th Century Ideas for the 21st Century*, Howe Institute, Toronto.
- Boyne, G. A. (1998). *Public Choice Theory and Local Government*, Macmillan, Basingstoke.

- Byrnes, J. and Dollery, B. E. (2002). "Do Economies of Scale Exist in Australian Local Government? A Review of the Research Evidence", *Urban Policy and Research*, 20(4), pp. 391-414.
- Dollery, B. E. (2003a). "A Critical Evaluation of Virtual Local Government in Australia", *Australian Journal of Public Administration*, 62(3), pp. 82-91.
- Dollery, B. E. (2003b). "Local Government Failure", in B. E. Dollery, N. A. Marshall and A. C. Worthington (eds.), *Reshaping Australian Local Government: Finance, Governance and Reform*, UNSW Press, Sydney, pp. 212-228.
- Dollery, B. E. and Crase. L. (2004). "Is Bigger Local Government Better? An Evaluation of the Case for Australian Municipal Amalgamation Programs", *Urban Policy and Research* (forthcoming).
- Dollery, B. E. and Marshall, N. A. (2003). "Future Directions for Australian Local Government", in B. E. Dollery, N. A. Marshall and A. C. Worthington (eds.), *Reshaping Australian Local Government: Finance, Governance and Reform*, UNSW Press, Sydney, pp. 231-250.
- Dollery, B. E. and Wallis, J. L. (2001). *The Political Economy of Local Government*, Edward Elgar, Cheltenham.
- Ernst and Young. (1993). *Resource Sharing Study: Town of St. Peters, Town of Walkerville, and City of Kensington and Norwood*, Office of Local Government, Commonwealth Department of Housing and Regional Development, Canberra.
- Hirschman, A. O. (1970). *Exit, Voice and Loyalty*, Cambridge University Press, Cambridge.
- Hodge, G. (1996). *Contracting Out Government Services: A Review of International Evidence*, Montech, Melbourne.
- House of Representatives Standing Committee on Economics, Finance and Public Administration. (2004). *Rates and Taxes: A Fair Share for Responsible Local Government*, Commonwealth of Australia, Canberra.

- Johnson, A. K. (2003). "Financing Local Government in Australia", in B. E. Dollery, N. A. Marshall and A. C. Worthington (eds.), *Reshaping Australian Local Government: Finance, Governance and Reform*, UNSW Press, Sydney, pp.37-63.
- Jones, M. A. (1989). *Managing Local Government*, Hargreen, Melbourne.
- Katsuyama, B. (2003). "Is Municipal Consolidation the Answer?", *Municipal Research and Services Center of Washington*, Summer, pp. 1-3.
- May, P. (2003). "Amalgamation and Virtual Local Government" in B. E. Dollery, N. A. Marshall and A. C. Worthington (eds.), *Reshaping Australian Local Government: Finance, Governance and Reform*, UNSW Press, Sydney, pp.79-98.
- Marshall, N. A., Dollery, B. E. and Witherby, A. (2003). "Regional Organisations of Councils (ROCs): The Emergence of Network Governance in Metropolitan and Rural Australia?", *Australasian Journal of Regional Studies*, 9(3) (forthcoming).
- McNeill, J. (1997). "Local Government in the Australian Federal System", in B. E. Dollery and N. A. Marshall (eds.), *Australian Local Government: Reform and Renewal*, Macmillan, Melbourne, pp. 17-39.
- Mueller, D. C. (2003). *Public Choice III*, Cambridge University Press, Cambridge.
- Oakerson, R. J. (1999). *Governing Local Public Economies: Creating the Civic Metropolis*, ICS Press, Oakland.
- Oates, W. E. (1972). *Fiscal Federalism*, Harcourt Brace, New York.
- Sancton, A. (2000). *Merger Mania*, McGill-Queens University Press, Montreal.
- Shires Association of NSW. (2004). *A Joint Board Model*, Draft Discussion Paper, Shires Association of NSW, Sydney.
- Soul, S. (2000). *Population Size and Economic and Policy Performance of Local Government Jurisdictions*, Unpublished doctoral thesis, Southern Cross University, Lismore.

- Thornton, J. (1995). *The Urban Parish: An Alternative Approach to Local Government Amalgamation*, Local Government Development Program Research Series, Office of Local Government, Commonwealth Department of Housing and Regional Development, Canberra.
- Varden, C. (2003). *Proposal for the Creation of the Peel Region Council*, NSW Department of Local Government, Sydney.
- Vince, A. (1997). 'Amalgamations', in B. E. Dollery and N. A. Marshall (eds.), *Australian Local Government: Reform and Renewal*, Macmillan, Melbourne, pp. 151-171.
- Williams, D. J. (1988). *Economies of Scale*, Research Paper, Elton Mayo School of Management, South Australia Institute of Technology, Adelaide.
- Worthington, A. C. and Dollery, B. E. (2001). "Diversity in Australian Local Government: The Case Against the Imposition of National Uniform Standards", *International Review of Public Administration*, 6(1), 49-58.