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Local Government Amalgamation

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Abstract: For more than a century, Australian state governments have imposed programs of structural reform of differing degrees of intensity that have involved municipal amalgamation, especially in regional, rural and remote areas of the country. Thus, over the past fifteen years, South Australia, Victoria, Tasmania, New South Wales and, most recently, Queensland have all witnessed extensive municipal restructuring, typically focused on council consolidation, that has illustrated the traditional view of Australian local government policymakers that 'bigger is better' in local governance (Dollery and Crase 2004). Local government amalgamation forms the subject of this paper.

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Introduction

For more than a century, Australian state governments have imposed programs of structural reform of differing degrees of intensity that have involved municipal amalgamation, especially in regional, rural and remote areas of the country. Thus, over the past fifteen years, South Australia, Victoria, Tasmania, New South Wales and, most recently, Queensland have all witnessed extensive municipal restructuring, typically focused on council consolidation, that has illustrated the traditional view of Australian local government policymakers that 'bigger is better' in local governance (Dollery and Crase 2004). Local government amalgamation forms the subject of this paper.

The paper is divided into four main parts. Section 2 describes recent structural reform in Australia. Section 3 considers the nature of amalgamation programs, while Section 4 deals with the effects of amalgamation on (a) local government and (b) multi-level governance. The paper ends with some brief concluding remarks in section 5.

Australian Amalgamation Programs

In its *Local Government National Report 2003–04* (DOTARS 2005, 66), the National Office of Local Government observed that 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'. Table 1 shows the change in the absolute number of local councils across Australia from 1910 to 2005 and highlights the steady reduction in local government entities over that period in all states, except Queensland and Western Australia; structural reform in these latter states is either underway or imminent. Table 1 also serves to illustrate the impact of the Victorian amalgamation program conducted in the mid-1990s – the most drastic Australian local government structural reform in history – that transformed 211 local councils into only 78 municipalities.

Table 1: Local Council Numbers in Australia 1910-2007

	1910	1967	1982	1990	1995	2007/08
NSW	324	224	175	176	177	152
VIC	206	210	211	210	184	78
QLD	164	131	134	134	125	73
SA	175	142	127	n/a	119	68
WA	147	144	138	138	144	142
TAS	51	49	49	46	29	29
NT	0	1	6	22	63	8*
TOTAL	1067	901	840	726	841	550

Sources: Advisory Council for Inter-government Relations (1982), cited in Chapman (1997) and for column 7 (in descending order): Local Government & Shires Association of NSW (2007), Victorian Local Government Association (2007), Dollery *et al.* (2007), Local Government Association of South Australia (2007), Western Australian Local Government Association (2007), Local Government Association of Tasmania (2008) & Local Government Association of the Northern Territory (2008)

*Amalgamation pending.

In general, Australian structural reform of local government has four noteworthy features. First, amalgamation is almost always the favoured policy instrument of state governments. It typically involves the consolidation of two or more small local authorities into a single entity, often small rural shires surrounding larger regional centres in the form of so-called 'doughnut' councils. Second, council amalgamation is seldom voluntary and almost always occurs under various degrees of state government coercion, ranging from outright compulsion to financial incentives and penalties. It is thus entirely a 'top-down' policy phenomenon (May 2003). Third, state government policymakers invariably prescribe additional measures designed to ameliorate the immediate effects of compulsory consolidation. For instance, the dramatic Victorian restructuring program was followed by a two-year freeze on property taxes, and the more recent New South Wales amalgamation was accompanied by a three-year ban on involuntary redundancies amongst council employees. Finally, no systematic official attempt has ever been made to evaluate the outcomes of amalgamation programs, despite confident and

often detailed pre-consolidation forecasts by state government politicians of substantial savings derived from enhanced efficiency. A cynical view of this neglect might suggest that policymakers sense that cost savings have not eventuated and thus they deliberately avoid a public review that would demonstrate the counter-productive effects of amalgamation.

Nature of Australian Structural Reform

Structural reform is typically foreshadowed by a concerted focus on the alleged inefficiency of municipal councils by state government politicians. This initial phase is then followed by the appointment of a commission or board charged with investigating local government and designing policies for improving its operations. A period of consultation follows and the official body finally reports to the relevant state Minister for Local Government. The Minister in turn refers the recommendations of the inquiry, which invariably propose council consolidations of varying degrees of severity, to the state Local Government Boundaries Commission. In due course the Boundaries Commission ratifies almost all of the recommendations, with the exception of politically sensitive cases, and these decisions are referred to the Minister and passed into law. Actual council amalgamations then take place regardless of local opinion on the matter.

The recent New South Wales program of compulsory amalgamation serves as a useful example of this generic process. In March 2003, the New South Wales government invited affected councils and organized local government to submit proposals aimed at improving the effectiveness of municipal service delivery. It appointed three 'Facilitators' to examine local governance in certain selected areas of the state and report on the desirability of amalgamating small, predominantly rural and regional councils into larger municipal entities. These proposals, together with inputs from affected councils and other interested parties, were considered in a series of official hearings of the New South Wales Boundaries Commission. The outcome of these Boundary Commission deliberations was then submitted to the NSW

Minister of Local Government for his determination and then passed into law by the New South Wales Parliament. The net effect was a wave of compulsory amalgamations in non-metropolitan areas of the state.

A most unfortunate feature of the dynamics of these reform processes is that legislation enacting the new municipal entities almost never sets down guidelines for the way in which amalgamation should occur. Thus affected councils are simply obliged to merge without any 'blueprint' on how to proceed. Since elected representatives and professional managers typically have previously never been involved in council amalgamations, confusion invariably follows and serves to raise the already substantial costs associated with council mergers.

Effects of Amalgamation

Effects on Local Government

The primary aim of council amalgamations has been to reduce the cost of local service provision by municipal councils through increased operating efficiency. Whether or not this has been achieved is an empirical question. The major problem confronting the exploration of this question is the unfortunate fact that no systematic review of the economic outcomes of council consolidation has ever been undertaken in Australia.

However, several official publications have at least partly considered the economic impact of structural reform. Perhaps the most revealing research into the impact of council consolidation has been done in South Australia by the Financial Sustainability Review Board (FSRB) (2005) in its *Final Report: Rising to the Challenge: Towards Financially Sustainable Local Government in South Australia* (Dollery 2005). With respect to the 'bigger is better' controversy, the FSRB (2005, 48) found that council 'size does not seem to matter much, with both the larger and smaller councils both typically registering operating deficits in 2003–04'. Moreover 'the same is true for the

density characteristics, with both the denser and sparser groupings also both registering operating deficits that year’.

On the basis of its statistical analysis, the FSRB (2005, 49) drew four main conclusions on the relationship between council type and council financial sustainability:

- The ‘metropolitan/country distinction of itself seems to play a relatively minor role in explaining the observed differences in the sustainability of the long-term financial performance and position of councils’.
- The ‘size and density of councils also seem to play little role in explaining observed differences in the sustainability of the long-term financial performance and position of councils’.
- ‘Relative growth rates play a larger role in explaining the observed differences’.
- Because ‘relative growth rates, size and density of councils altogether explain only a fraction of the differences observed in the sustainability of the long-term financial performance and position of councils, other financial characteristics must be more important contributors’.

A final aspect of *Rising to the Challenge* has special significance in the present context. The Board noted that the architects of the earlier structural reform program in South Australia, which reduced the number of councils from 118 to 68, had claimed that the reform process had achieved ‘recurrent savings’ of \$19.4 million per annum and a ‘one-off estimated savings of \$3.9 million’. However, the Board (FSRB 2005, 85) observed caustically that ‘whether the on-going savings have in fact continued is a moot point.’ It argued that ‘fewer, larger councils are not the instant or easy fix that many would like to believe, especially in non-metropolitan areas dominated by the “tyranny of distance” and other impediments’.

These considerations led the Board to conclude that ‘amalgamation brings with it significant costs and often exaggerated benefits’ and that ‘there are many intermediate forms of cooperation/integration among councils, with amalgamation being the most extreme (and confronting) form of integration’. Furthermore, ‘there are other ways to overcome this disparity between councils’ capacity to fund service delivery’, including ‘shared service models, strategic alliances and virtual local governments, possible in part through the advent and ubiquity of broadband capacity and application service provider (ASP) technology.’ In essence it stressed that ‘collaboration between councils can and should be a major contributor to councils being financially sustainable in the future’.

Effects on Multi-level Governance

The difficulties inherent in determining the economic effects of amalgamation are compounded when it comes to the effects of structural reform on inter-governmental relations in Australia. While at least some work has been focused on exploring aspects of the former problem, almost nothing has been done on the ramifications of council consolidations for multi-level government.

Consensus exists across Australia that intergovernmental relations represent a growing problem for local government. The Commonwealth Grants Commission (2001, 52–3) has identified five main reasons for the current financial difficulties confronting Australian local government, three of which derive from intergovernmental relations:

- ‘devolution’ – where a higher sphere of government gives local government responsibility for new functions
- ‘raising the bar’ – where a higher tier of government, through legislative or other changes, raises the complexity and/or standard at which local government services must be provided, thereby increasing the cost of service provision
- ‘cost shifting’ – either where a municipal council agrees to provide a service on behalf of a federal or state government (with funding subsequently reduced or stopped) or where some other tier of

government ceases to provide an essential service thus forcing a local authority to take over

- 'increased community expectations' – where a given community demands improvements in existing municipal services or the provision of a new service
- 'policy choice' – where specific councils voluntarily expand and/or enhance their services.

Johnson (2003) has observed that, in addition to these problems, local governments themselves are also partly responsible for their own financial plight. In particular a number of councils have been reluctant to set their rates and other charges at realistic and sustainable levels.

It is immediately apparent that 'devolution', 'raising the bar' and 'cost-shifting' are directly caused by the behaviour of national and especially state governments. But not even the staunchest advocates of structural reform consider amalgamation a means of reducing these problems. We thus conclude that structural reform, at least in the Australian local government milieu, has not influenced the operation of multi-tiered government.

Conclusion

This paper has sought to show that structural reform in Australian local government has been driven overwhelmingly by the view amongst state government policymakers that 'bigger is better' in local government. Moreover, the notion that municipal size and municipal operational efficiency are inextricably linked has led to the belief that cost savings will inevitably follow from council consolidation programs. However, empirical evidence on the economic consequences of local government amalgamation is mixed and has resulted in growing disenchantment with council mergers. Alternatives to amalgamation, typically involving partnerships between local councils and shared service provision, seem to offer greater rewards than heavy-handed compulsory council mergers.

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