

CONSOLIDATION IN LOCAL GOVERNMENT: A FRESH LOOK

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I. INTRODUCTION AND OVERVIEW

This project was undertaken as a collaborative research venture between the Australian Centre of Excellence for Local Government (ACELG), Local Government Association of South Australia (LGASA), and Local Government New Zealand (LGNZ). Each wanted to take a fresh look at the issue of consolidation in local government, free from any current political or other pressures to recommend any particular approach towards structural reform.

At the outset, we have to acknowledge the extensive research already undertaken in this field in both Australia and New Zealand. However, whilst we have drawn on that body of work, and have undoubtedly re-iterated some previous findings, this was indeed a ‘fresh look’ and new evidence and ideas have been incorporated that throw new light on earlier studies.

The term ‘consolidation’ was chosen in an attempt to embrace a wide range of options that may deliver economies of scale or scope, or other benefits in terms of more effective local government. Options investigated included a range of approaches to shared services delivery, various models of regional collaboration, boundary adjustment, and voluntary, forced and failed amalgamations of councils.

Even though this was by no means a fully comprehensive assessment, a very large amount of material has been assembled. It has therefore been split into two volumes: this report and a second volume containing the full literature review and case studies.

It should also be noted that ACELG is undertaking complementary research in a number of areas, notably community and metropolitan governance, strategic and corporate management, the emerging role of mayors, local government finance, and the special issues facing small rural-remote and Indigenous councils. Reports will be progressively available at www.acelg.org.au

1.1 Background

A recurrent theme in local government reform, in Australia, New Zealand and overseas, has been the issue of municipal amalgamation and the various benefits which are assumed to flow from it. There have been many commissions and reports aimed at reforming local government in Australia and almost all have had as a major focus the question of optimum size and efficiency. This mirrors experiences in a number of overseas jurisdictions.

The reports of these enquiries, together with the academic research in Australia, New Zealand and internationally, represent a huge body of literature, sometimes contradictory, often heavily focused on economic arguments to the exclusion of other issues – such as the importance of good governance and effective local democracy and representation – and rarely inclusive of any evaluation of the post-reform experience. It is little wonder that proposals for amalgamations or other forms of consolidation keep recurring, when there has not been a robust meta-analysis of the data to give governments more guidance in their policy making.

This project sought, to a modest extent, to redress that imbalance. Its aim was to provide a fresh view of issues relating to municipal consolidation by:

- Reviewing the available local and international literature
- Conducting a series of ‘on ground’ case studies¹ in areas which have recent experience with consolidation, in both Australia and New Zealand
- Interviewing key opinion-makers who have recent experience in consolidation.

1.2 Dimensions of Consolidation

As a starting point, we identified four broad strands in the debate about reform, each underpinned by particular views about the appropriate role of local government.

1.2.1 Efficiency

Many local government inquiries have asserted that consolidation (amalgamations, shared services and so on) will inevitably result in greater efficiencies and cost savings for local governments, creating the potential for them to do more with less. This was the prevailing theme in the 1990s amalgamations in Tasmania, Victoria and South Australia, in particular, but also influential in other jurisdictions. These apparent certainties have been both endorsed and challenged by academics in Australia and overseas. In this project we have re-examined the available evidence both from Australia and overseas from the perspective that we do not have a preferred outcome, and in recognition that the different jurisdictions have significantly differing operating environments.

1.2.2 Strategic capacity

In recent years the need or desire to strengthen local government’s strategic capacity to play an expanded and more prominent role has emerged as a key variable in programs of local government reform. This developing view of the role of councils requires that they are not just financially robust but also have the skills and resources ‘to be high capacity organisations with the requisite knowledge, creativity and innovation to enable them to manage complex change’². This rationale for consolidation may be particularly relevant in metropolitan areas and rapidly developing regions, especially in view of recent federal initiatives for metropolitan planning and regional development. It is also linked to new concepts of local government’s role such as ‘place-shaping’ and – in the UK – ‘Total Place’. This dimension of change requires an assessment of changes to local governments’ strategic capacities, which have been developed as a result of consolidation activities.

1.2.3 Service delivery

Many assertions have been made that consolidation would generate improvements in service delivery, although there are few studies which actually examine the post-consolidation experience of those who receive local government services. This dimension of consolidation was examined in order to evaluate the contribution of local government restructuring in enhancing, or diminishing, service delivery. We can hypothesise that responses might vary according to particular services, given that the threshold population size for particular services is different: for example, the optimum threshold size for refuse collection may well be smaller than for water supply. The research, then, sought evidence relating to the question of whether or not there have been service enhancements (or deterioration) as a result of consolidation.

1.2.4 Local democracy

A number of researchers have focused attention on impacts on the broader roles of local government, beyond service provision, as a consequence of consolidation. They have drawn

¹ In a few cases these had been researched previously by others, but fresh perspectives were sought

² Local Government Reform Commission (Queensland) (2007), report, volume 1, at:

<http://www.dip.qld.gov.au/resources/report/commission-recommendation/vol-01/volume-1-report.pdf>

attention to the quality of local representation and the increasing difficulties of undertaking this effectively in larger councils. In contemporary Australia and New Zealand, a range of approaches has been adopted to enhance local democracy through mechanisms such as community councils or boards, precinct or ward committees, improved community engagement and the like, and many local governments also have available to them technologies aimed at enhancing the representative role of councils and of individual elected members.

This research has considered whether and how consolidation affects local government's capacity to undertake its representative and democratic roles within the community. This dimension also includes consideration of the effectiveness of local government in representing community views to regional bodies and to state and federal governments – its role as advocate for its community.

1.3 Research Method

It was important to the researchers that this project examined data from a number of sources so that different data sets could be compared with each other. This form of 'triangulation' reduces the possibility of bias, and if each data set supported the findings of the others, then we can advance our findings with more authority. As noted above, we chose to use three data sets:

- Desk analysis of the literature
- A series of case studies
- Eight interviews with senior practitioners from the local government sector.

1.3.1 Desk analysis of literature

This task was to review current materials generated from reports, academic papers and submissions by key stakeholders, focusing on the four dimensions of consolidation identified above. While the primary focus has been on the Australian and New Zealand contexts, samples from the international literature, especially relating to other federal jurisdictions, have been included. While much of the material was concerned with ex ante considerations, involving expected outcomes from consolidation, we have taken particular interest in material that examined situations from an evaluation or review position. Special attention has been given to the South Australian experience of consolidation, including the 1990s consolidation, but also how it forms part of a broader and continuing reform agenda. The literature review is summarised in section 5 and presented in full in Volume 2.

1.3.2 'On ground' case studies

Governments typically are more interested in initiatives than in evaluations, consequently there have been few reviews or evaluations of the consolidation experience in Australia. It has been a critical part of this project to examine ex-post experiences of different approaches to municipal consolidation. That has been done through using a series of 17 case studies (some reported in pairs). These 'on-ground' cases aimed at documenting the consolidation experience of various groups of stakeholders in particular locations.

Cases were selected from a matrix, as in Table 1.1 below, which tries to ensure that different approaches to consolidation are captured, as well as providing data about the experience in different types or locations of councils. It is important to recognise that this is *not* sampling and that it is not possible to draw generalised conclusions from the cases about the consolidation experience in different classes of councils – for example, conclusions about rural and remote councils versus metropolitan fringe councils. However, the totality of the consolidation experience illuminates similarities and differences between councils in general.

Data was collected from structured interviews with key elected and staff members and discussion with groups of stakeholders. Each case study is presented in Volume 2 and summarised briefly in section 6 of this report. They offer a wealth of rich data for further research.

Table 1.1: Case Studies Matrix

	Amalgamation/ Boundary Change	Shared Services	Regional Collaboration
Metropolitan	<ul style="list-style-type: none"> Central Highlands and Sunshine Coast (Qld) Onkaparinga (SA) 	<ul style="list-style-type: none"> Eastern Health Authority (SA) 	
Regional Centre	<ul style="list-style-type: none"> Geraldton-Greenough (WA) Mount Gambier-Grant (SA) 	<ul style="list-style-type: none"> Waikato and Bay of Plenty (NZ) 	<ul style="list-style-type: none"> Hunter Regional Organisation of Councils (NSW)
Rural	<ul style="list-style-type: none"> Break O'Day and Glamorgan-Spring Bay (Tas) Delatite (Vic – de-amalgamation) 	<ul style="list-style-type: none"> New England Strategic Alliance of Councils (NSW) Shared CEO (WA) North-East Councils (SA) 	<ul style="list-style-type: none"> Riverina Regional Organisation of Councils (NSW)
Whole of State		<ul style="list-style-type: none"> Water and Sewerage (Tas) Local Government Association of SA 	

1.3.3 Practitioner interviews

We identified eight senior practitioners from the local government sector (present or former) who have considerable experience with different forms of consolidation. This identification was done through discussion with key confidants in the sector and was designed as a stratified sample to ensure that the voices of elected members and senior officials, men and women, the local government associations and different state jurisdictions, were heard. These eight interviews have, in effect, provided us with an 'oral history' about their experience of and reflections in relation to, consolidation. Some have experience in several jurisdictions and their reflections add substantive data to that gathered from other data sources.

We recognise that selection of participants has potential for bias and we understand that over time new arrangements can become 'normalised', and therefore more acceptable, or that previous arrangements can also be held up as examples of some golden former age. However, it is the totality of these important 'oral histories' that adds substance to data gathered from other sources. It is also a valuable way of capturing some of the experience of earlier consolidation activities, for example the amalgamations conducted by the Kennett government, in the absence of carefully designed evaluation studies.

A summary of these interviews is included in Section 7 of this report. Given that we are committed to maintaining the anonymity of the interviewees, we have not included the transcripts of interview as appendices. These have, however, been archived for possible examination at some later time, pending permission from the interviewees.

1.4 ‘Headline’ Conclusions

The table below attempts a summary in terms of the attributes of different forms of consolidation. It should be read in conjunction with the points that follow.

Table 1.2: Summary Attributes of Different Forms of Consolidation

	Amalgamation	Boundary Change	Shared Services	Regional Collaboration
Efficiency and Economies of Scale	Strong link	Potentially strong link subject to size/disposition of re-shaped councils	Strong link	Weak link
Strategic Capacity	Strong link	As above – benefits will flow to larger ‘new’ council/s	Potential medium-strong link subject to organisation structure and governance	Weak link
Service Improvement and Innovation	Strong link	As above	Strong link (but limited to those services that are effectively shared)	Potential link subject to nature and scope of collaboration
Potential Diminution of Local Democracy	Distinct risk, but can be managed	Some risk depending on nature of ‘new’ councils – can be managed	Risk where shared services are extensive and decision-making is ceded to joint authority – may be difficult to manage	Little or no risk

- **Ongoing change in local government is unavoidable**, and consolidation in its various forms will be part of that process.
- As a general rule **benefits of some sort do accrue** when councils adopt mechanisms to collaborate or consolidate with other local authorities.
- Potential **benefits are reduced or lost when the process is flawed** due to inadequate planning and consultation or a failure to consider all the options available and precisely what each could achieve.
- There is **little evidence** that *amalgamation* will automatically yield substantial **economies of scale**.
- **Efficiency gains** can be achieved through various forms of consolidation, but are unlikely to produce reductions in local rates and charges due to other expenditure needs.
- What is more obvious is that various forms of consolidation have the **capacity to yield economies of scope**.
- More importantly, consolidation offers opportunities to achieve **economies of scope** or enhanced **strategic capacity**. This effect may well be strongest in the case of amalgamation into relatively large units.
- New services and/or **innovative approaches to service delivery** have been promoted through various forms of consolidation.
- In the case of **more remote councils** with small populations spread over large areas, consolidation (whether amalgamation or shared services) may not be feasible.
- **Concerns for any diminution of local democracy were muted**, suggesting that councils may be managing this issue well and/or that it is often not a major, ongoing factor in the eyes of the community.

- Underpinning any approach to consolidation is the ***importance of political leadership, good governance and effective management arrangements***, both in managing change and establishing a sound basis for ongoing operations.
- There is a ***continuing role for state (and national) governments and local government associations*** in facilitating and supporting consolidation initiatives.
- ***Too much attention is focused on the institutional arrangements*** of the local government system in each jurisdiction rather than on the fundamental issue of the societal functions performed by local government and its changing role.

1.5 Summary of Findings

This section sets out the principal research findings from the large amount of detailed material provided in Volumes 1 and 2 of the report.

1.5.1 The need for ongoing reform

1. Local government is under continuing pressure to evolve and reform in order to address challenges such as financial sustainability, changing community needs and expectations, metropolitan growth, shifting relationships with central governments, and so on. There was a strong view from the practitioner interviews in particular that further substantial change is a given: the issue is what form this should take.
2. Our research indicates that consolidation – whether amalgamation, shared services or other forms of closer collaboration between councils – is an essential (but not exclusive) strategy to address the challenges facing local government and secure its place in the evolving Australian system of government. The evidence shows that significant benefits can be derived from all of the approaches to consolidation examined in this study. Equally there may be disbenefits – disruption, transition costs, weakening of local democracy, loss of local identity and employment – that need to be weighed in any strategic approach to reform.
3. The fundamental point is that all options need to be addressed and solutions matched to a realistic, evidence-based assessment of the particular circumstances and issues involved – neither proponents nor opponents should adopt inflexible or ideological positions at the outset. One size does not fit all, form must follow function, and objectives must be clear. It follows that consolidation is best approached in the context of broader reform packages so that complementary improvements, such as enhanced political governance, better financial and asset management, or organisation development, are also on the table.
4. The available evidence points to a particular need for ongoing consolidation of local government activities in metropolitan areas. Growing concerns about Australia’s capacity to manage rapid metropolitan growth and change, and the federal government’s move to develop a national urban policy and promote better metropolitan planning, call for a demonstration of local government’s capacity to make a strong contribution on behalf of local communities and in the broader regional and national interest. There is a widespread view that this calls for substantially larger local government units *as well as* collaborative planning and resource sharing.

1.5.2 The process of consolidation

5. It is not always easy to determine which form of consolidation (if any) is most appropriate for any particular circumstances. Decisions need to reflect both shorter-term and strategic views of the desired outcomes for communities. Consolidation almost always works best after extensive consultation with, and wherever possible with the imprimatur of, the local community (broadly defined to include a wide range of local and regional stakeholders). The case studies reveal that

inadequate engagement and consultation with all those affected reduce or offset potential benefits of consolidation, especially by increasing uncertainty and anxiety about the future, and compounding the inevitable disruption associated with significant change.

6. It became clear from our research that in most cases the costs of change and dislocation were underestimated and too rarely factored into the cost-benefit equation for adopting particular options. However, this comment also applies to the 'do-nothing' option, which may well have significant opportunity costs by retaining arrangements that clearly need to be improved. Those 'do-nothing' costs also need to be carefully and openly examined.
7. It follows that moves to consolidation of whatever form should not be rushed. Time is needed to consult widely and properly consider all options and their implications. Appropriate expertise needs to be engaged to explore the issues involved and potential costs and benefits. The additional expenditure and extended timeframe involved are likely to prove less costly than having to repair (or unwind) sub-optimal solutions. (On the other hand, we note the experience of Geraldton-Greenough, where after a long period of debate – and careful investigation – support emerged to make a significant change and the political leadership determined to 'seize the day', even though it involved moving somewhat faster than they might have preferred.)
8. Motivation and leadership to find the most appropriate solution based on a rigorous and honest assessment of what needs to be done are essential. For example, where councils implement shared services or some form of regional alliance primarily as a means of countering moves towards amalgamation, it is unlikely to result in a lasting partnership and genuine benefits to the collective of councils and communities involved.
9. Good governance (including sound management support) is therefore fundamental to any form of consolidation. Critical aspects of governance revealed by this study are:
 - The development of a clear and robust rationale for the consolidation process
 - Meaningful consultations with all affected parties at the start and during the process of change, plus trust and 'good faith' in negotiations
 - Commitment and effective leadership at both political and chief executive levels with, in the case of amalgamation, transitional arrangements for both forms of leadership agreed at the outset
 - Negotiating the most appropriate form of governance of the new arrangements, noting that these are best treated as a fresh start, rather than a 'take-over' by one party
 - In the case of shared services, ensuring that cooperative arrangements or newly created entities are designed to engender continuing commitment (political and managerial) and provide necessary specialist expertise
 - Recognising that change has costs and that securing staff buy-in is critical to success
 - A realistic timetable for implementation
 - An objective, independent and ongoing evaluation program.
10. The case study of governance of shared services in New Zealand's Waikato and Bay of Plenty regions offers several valuable insights, as does the failure of the New England Strategic Alliance.

1.5.3 Efficiency

11. A distinction needs to be drawn between *internal cost savings* and *reduced rates and charges* to consumers of local government services. Some case studies revealed cost reductions in specific functions or areas of service delivery (e.g. savings in administrative overheads or waste management), but the evidence strongly indicates that such savings need to be ploughed back

into other areas, notably asset management. We can conclude that any efficiency gains from consolidation should not be expected to deliver significant reductions in rates and charges, as has often been claimed. Greater efficiency is more likely to be reflected in enhanced strategic capacity or improved service delivery (see below).

12. At the same time, there is little evidence that *amalgamation* will of itself yield economies of scale greater than those achievable through other forms of consolidation, or that such economies are available across many of local government's functions by whatever means. We found few robust examples in the literature, in the case studies we examined or in the experience and knowledge of the experts with whom we spoke. Yet many in central government – and some in local government – still cling to the belief that substantial savings can and should be made.
13. Importantly, even where economies of scale can be demonstrated, in few cases have the full costs of amalgamation been factored into the calculation of net savings. It is clear that amalgamation (and some other forms of consolidation) imposes considerable costs in dislocation and developing new arrangements and new cultures. Typically, these costs have been borne by the councils themselves; ironic when amalgamation is proposed to address financial problems. They can also be incurred by the community, such as in longer travelling times to get to service centres or facilities.

1.5.4 Strategic capacity

14. The study has revealed that consolidation provides important opportunities to capture economies of scope and enhance the *strategic capacity* of local government. Economies of scope increase the capacity of councils to undertake new functions and deliver new or improved services that previously were not possible. Significantly, they enable councils to shift their focus towards a more strategic view of their operations. We argue that this enhanced strategic capacity is in part a function of increased size and resource level, but it is also related to the potentialities that are created by the pooling of knowledge and expertise. The process of consolidation can generate a focus that transcends individual local government boundaries and encourages councils to operate in a broader context – one that is more regional or system-wide – and enables them to relate more effectively to central governments. Enhanced strategic capacity appears essential to local government's long term success as a valued partner in the system of government, and this emerged as probably the most important issue for councils to consider in examining different modes of consolidation.
15. A difficult question to determine is whether economies of scope and development of strategic capacity are stronger with amalgamation than with other approaches to consolidation. Several of those interviewed for this research argued strongly that amalgamation is the best route to strategic capacity. It would appear that larger (and fewer) amalgamated councils are more likely to be engaged as partners with state or national governments in regional planning or governance arrangements, and to be able to exert real influence. However, this is not an 'either-or' situation: we found that larger, amalgamated councils can still find advantages in pursuing even greater consolidation through shared purchasing schemes or regional advocacy groups.
16. Shared services may also enhance strategic capacity to varying degrees, but this would appear to require more robust and powerful regional structures – such as semi-autonomous arms-length entities. This may in turn have impacts on local democracy (see below). Looser forms of regional collaboration are least likely to deliver substantial strategic capacity.
17. This newer evidence about the value of strategic capacity, and that it may be strongly linked to larger units of local government, means that amalgamation should not be ruled out as an option

simply because other forms of consolidation can yield economies of scale or scope, or because amalgamations have not been shown to generate significant cost savings or rate reductions.

1.5.5 Service delivery

18. A wide range of innovative and improved approaches to service delivery have been adopted or are under consideration through the process of consolidation. Numerous examples emerged such as the shared services agencies in the Waikato and Bay of Plenty case study, or developments through other forms of regional or state-wide service delivery – as in South Australia – or sharing a CEO between small councils. However, what is also clear is that in Australia state government regulation that limits creation of robust arms-length entities can be a constraint to further innovation by councils, and serious consideration needs to be given to amending legislative provisions that may unnecessarily constrain options for establishing council businesses. The provisions and models applying in New Zealand should be examined as an alternative approach.

1.5.6 Local democracy

19. From both the case studies and the interviews, it appeared that there was relatively little concern about the impact of consolidation on the strength of local democracy – although the Delatite example shows that loss of local identity may be a potent factor if not understood and effectively addressed. This limited focus on democracy may be due to several factors. First, that any impact on democratic representation and/or public access to decision-making may not be overt and readily appreciated in forms of consolidation such as shared services or regional alliances. Second, public concern may simply dissipate once an amalgamation and reduction in numbers of elected representatives has been completed and ‘the dust has settled’. Third, in some cases specific provisions were put in place to ensure that democratic arrangements were not unduly affected, such as maintaining a relatively high ratio of elected member to constituents, or implementing new institutional arrangements and structures to ensure adequate community engagement and access to council. Fourth, it may be that, as a whole, councils are nowadays more conscious of the importance of transparency, accountability and access, and have made improvements with regard to these irrespective of any consolidation activity.
20. None of the above is to suggest that issues of local democracy and representation are unimportant and should not be considered fully when weighing consolidation options. Australia has high ratios of population per councillor compared to Europe, North America and the UK, and for the most part councillors are part-time. The justification and implications of moves to cut the number of councillors need to be carefully examined, especially when this is often a key factor in generating opposition to amalgamations.
21. The case studies of Geraldton-Greenough and Onkaparinga highlight the merits of retaining a relatively large number of councillors, as well as the value of ward-based systems of representation and place management approaches to community engagement, planning and service delivery, to limit adverse impacts on local identity and representation.

1.5.7 The limits to consolidation?

22. Our case studies and interviews suggest that there is a ‘cut-off point’ in terms of feasible consolidation, especially where considerable travel distances are involved. Shared services may be impractical or yield very limited benefits; travel distance becomes prohibitive for effective amalgamations; democratic representation simply becomes too onerous; and establishing any

form of community of interest difficult. It has been clear from cases in Tasmania, Queensland and South Australia that where this point is reached, state governments have typically left those councils alone. But this, of course, raises questions about what, if anything can be done to enhance the capacity and viability of small (in population), more remote councils, many of which may be facing severe financial pressure. Perhaps quite different options will need to be considered, such as a 'second division' of local government with reduced responsibilities, or unincorporating the areas involved and managing them through special-purpose boards and township committees outside the local government Act (as in the Outback Communities Authority in South Australia and the Western Division of NSW).

23. At the other end of the spectrum, consideration needs to be given to whether there is a preferred upper limit to the size of councils in the Australian context. In the foreseeable future South East Queensland will have five or six councils with populations in excess of 0.5 million, and Brisbane City itself will have reached a population of around 1.25 million. This raises important questions about management structures and capacity, as well as the nature and quality of local democracy. For example, should Brisbane City's system of a (semi) executive mayor and single member wards with full-time, well resourced councillors be duplicated elsewhere? Does it provide effective local democracy? The recent amalgamation of Auckland councils into a 'super city' has also thrown these issues into sharp focus and it will be important to capture the lessons from its arrangements of elected local boards and arms-length entities for most service delivery.

1.5.8 Facilitating consolidation

24. Despite the criticisms levelled at past involvement of state and national governments in driving amalgamations, the evidence does indicate a continuing important role for those governments in facilitating and funding consolidation initiatives. Local government associations also have a significant role to play, as evidenced by the South Australian experience where the association has a strong record of supporting reforms appropriate to the sector in that state.
25. Suggestions have been made about the importance of ongoing, independent analysis of local government boundaries through arrangements similar to those of electoral commissions. (Such a model is used in South Africa with the Municipal Demarcation Board.) Any such arrangements would need to be collaborative, well resourced, predictable, open and independent in providing advice to national, state and local governments. Importantly, for the sector, it might forestall any unwarranted or inappropriate central government intervention. However, it should be noted that Australian state governments have a long history of bypassing statutory boundary commissions (or the like) when they conclude that sweeping change is essential and urgent.

1.5.9 ...so if consolidation is the answer, what is the question?

26. The last two points raise broader questions about the general relationships between central and local governments. It appears that there is still too much focus on the institutional arrangements of the local government system in each jurisdiction, rather than on the fundamental issue of the societal functions performed by local government. On the grounds that 'form follows function', it would be more productive for all parties to focus on the critical functions councils undertake – or need to undertake – on behalf of their communities (such as promoting community wellbeing, constructing and maintaining essential infrastructure, facilitating economic development, managing the environment, providing leadership and delivering a sense of identity). The first questions asked should be: what needs to be done to improve local government's performance in discharging these critical functions? And how should local government's role and functions evolve over coming decades? Provided the answers flow from rigorous inquiry, all concerned might be in a better position to select the structural arrangement(s) that need to be pursued.



2. AUSTRALIAN CONTEXT

2.1 Introduction

Apart from thinly populated parts of the Northern Territory, South Australia and New South Wales, local governments have covered the whole of Australia for the past century. Thus with the exception of the Northern Territory, where most councils are recently established, Australia's systems of local government are spatially, functionally and politically 'mature'. Councils have well-established relationships with their communities, with other organisations and governments, and with each other through regional, state and national associations. This has important implications for processes of consolidation.

Australia currently has around 560 local councils: the count varies slightly depending on whether or not some non-elected special purpose bodies are also included. Over time the total has fallen dramatically due to amalgamation and/or restructuring of local government areas. This trend accelerated over the past two decades, as shown in Table 2.1. As a result, the average population of Australian local governments is now around 40,000 – small by comparison with the United Kingdom or South Africa, but considerably larger than across much of Europe.

However, this masks a huge diversity in size of both populations and geographical areas: there are still many rural and remote councils with populations of less than 10,000 (especially in Western Australia, South Australia and New South Wales), as well as small-medium urban councils (populations below 70,000) in both regional centres and metropolitan areas other than Brisbane and Melbourne (see Table 2.2). Indeed, in 2007 there were still fewer than 50 councils with populations in excess of 120,000. This diversity militates against 'one size fits all' approaches to issues of efficiency and effectiveness in service delivery, capacity building and local democracy.

For the most part, restructuring of local government has been initiated by state governments in the belief that larger units will be more efficient and effective, better suited to the needs of a modern economy, and better able to deliver services and provide sound governance (see Table 2.3). Predictions of cost savings and hence reduced property taxes (rates) were a particularly common justification for local government amalgamations during the 1990s, when Australia went through a period of wide-ranging micro-economic reform. In the case of sweeping changes made in Victoria, it was claimed that savings of about 20 per cent would be achieved³. The extent to which real savings were made and economies of scale eventuated there and elsewhere remains a matter for debate. For example, McKinlay Douglas⁴ reports that proposals for amalgamations in South Australia in the mid-1990s were projected to save \$150m per annum in local government expenditures, but in practice the changes (albeit significantly modified) saved only \$19m per annum. Moreover, there is considerable evidence to show that transition costs of mergers are usually much higher, and the

³ Moore, D. (1996) The Financial Benefits of Local Government Reform, in P. Johnstone and R. Kiss (eds) *Governing Local Communities – the future begins*, Centre for Public Policy, University of Melbourne, Melbourne, p. 65.

⁴ McKinlay Douglas Limited (2006) *Local Government Structure and Efficiency*, report prepared for Local Government New Zealand, p. 23.

extent and duration of disruption to operations much greater, than postulated by advocates of change.

Table 2.1: Number of Local Councils in Australia 1910-2008

	1910	1967	1982	1990	2000	2008
NSW	324	224	175	176	174	152
VIC	206	210	211	210	78	79 ^μ
QLD*	164	131	134	134	157	73
SA	175	142	127	122	68	68
WA	147	144	138	138	142	142#
TAS	51	49	49	46	29	29
NT [^]	0	1	6	22	69	16
TOTAL	1,067	901	840	848	717	559

^μ There has been one de-amalgamation since 2000.

* Queensland numbers before 2000 exclude Indigenous community councils established under separate legislation; by 2008 these had been included in the 'mainstream' system.

Since reduced to 139 through voluntary amalgamations.

[^] Figures to 1995 include Indigenous community councils; in 2008 most of these were abolished and replaced with large 'shires', each incorporating several small communities.

Sources:

Chapman, R. (1997) 'The Role of Local Government in Australia' in R. Chapman, M. Haward and B. Ryan (eds) *Local Government Restructuring in Australia*, Hobart: Centre for Public Management and Policy, University of Tasmania, pp.1-23; DOTARS (Department of Transport and Regional Services) (2001) *Local Government National Report 2000-01*, Commonwealth of Australia, Canberra; May, P. (2003) Amalgamation and Virtual Local Government, in Dollery, B., Marshall, N. and Worthington, A (eds) *Reshaping Australian Local Government*, UNSW Press, Sydney; State local government department websites.

Table 2.2: Population of Local Government Areas 2007*

Population	Rural Areas	Urban Areas	Total
Up to 10,000	373 [^]	16	389
10,001-30,000	69	67	136
30,001-70,000		82	82
70,001-120,000		42	42
120,001-200,000		40	40
More than 200,000		6	6
Total	442	253	695

* Pre-dates recent amalgamations in Queensland and Northern Territory and includes some non-elected bodies.

[^] Includes 30 small Indigenous councils in Queensland officially classified as 'urban'.

Source: DOTARS (Department of Transport and Regional Services) (2008) *Local Government National Report 2007-08*, Commonwealth of Australia, Canberra.

In general, research and debate about an optimum size (population) for local government areas have been inconclusive, and there remain strongly opposed views as to whether larger amalgamated councils enjoy significant economies of scale⁵. Moreover, in thinly populated areas the controlling

⁵ See, for example, Witherby, A., Dollery, B., Auster, M. and Marshall, N. (1999) *Is Bigger Better: Towards a Model Process for Local Government Structural Reform*, Australian Institute of Urban Studies, NSW Branch.

factor becomes the sheer spatial extent of the area to be served by a council: some local government areas already exceed the size of small-medium countries. More recently, however, greater emphasis has been placed on the potential for larger units to improve the capacity and viability of local governments, notably in relation to the widespread restructuring that took place in Queensland in early 2008.

Table 2.3: Drivers of Structural Reform

Primary motivational factors	Secondary motivational factors
<ul style="list-style-type: none"> ▪ Economies of scale ▪ Greater financial strength and stability ▪ Increased capacity to offer a wider range and higher quality of services ▪ Efficiency gains ▪ Reduce the cost of local government and stimulate growth in the private sector ▪ Equitable distribution of public goods 	<ul style="list-style-type: none"> ▪ Increased specialist professional expertise ▪ Reduced administrative costs ▪ Lower costs of representation ▪ Greater purchasing power ▪ More efficient use of plant and equipment ▪ Logical jurisdictional boundaries

Source: May, P. (2003) Amalgamation and Virtual Local Government, in Dollery, B., Marshall, N. and Worthington, A (eds) *Reshaping Australian Local Government*, UNSW Press, Sydney.

A related issue is the growing expectation that local government will contribute to the achievement of national and state-level policy agendas. Since the late 1970s the federal government has been the largest external provider of funding for local government, and there has been progressively closer engagement between the two. In particular, the Australian Local Government Association now represents local government on the Council of Australian Governments, including several of its high-level working groups, and on a large number of ministerial councils dealing with different aspects of public policy. Most recently, the Rudd-Gillard government established an Australian Council of Local Government to strengthen cooperation on national issues of mutual concern, such as economic development, climate change, population and urban growth, productivity etc. Similar high-level policy engagement with local government can also be found in some states. This implies a need for more capable local governments that can make a substantial contribution to tackling complex agendas.

2.2 Different Approaches

Table 2.2 reveals interesting differences between jurisdictions in the approach taken to restructuring. NSW has experienced several rounds of council amalgamations, often forced and most recently in 2003-04. This has produced a steady reduction in the total, amounting to more than 50 per cent of the number of councils in 1910.

Tasmania has seen a reduction of about 40 per cent, chiefly through semi-voluntary mergers in the early 1990s. Moves by the state to force a further cut of around 50 per cent in the late 1990s were strongly resisted and may have contributed to the government's election defeat in 1999.

Victoria and Queensland both experienced sudden and decisive state intervention to reduce the number of councils by more than half through forced amalgamations and boundary changes. In both cases there had been a steady build-up of pressure as local government long resisted change. The two episodes were, however, a decade apart: 1995-96 in Victoria, 2007-08 in Queensland.

South Australia also saw profound changes in the mid 1990s – a year or two after Victoria – but the mergers were, unusually in Australian history, voluntary and negotiated between the councils

involved (albeit under significant external pressure). Also, they followed earlier amalgamations that had already cut the total by about a third.

The issue confronting the Northern Territory was seen as one of transforming large numbers of very small and almost totally grant-dependent Indigenous community councils into a more viable system of local government. Eventually, in 2008, 63 local governments were replaced with just 16 through a semi-negotiated process.

Local government in Western Australia continues fierce resistance to forced amalgamations and there is presently a standoff between the state and most councils over the issue. History suggests that sweeping change may not be far away if the parties are unable to find a collaborative way forward.

2.3 Financial Position of Local Government

Of particular significance in this context is the current and prospective financial position of local councils. On average, Australian local government is around 80-85 per cent self-funding: whilst its revenue base is quite narrow and confined to property rates, fees and charges, and in some cases substantial commercial or investment income, that base matches its still relatively limited range of functions quite well. Unlike many of their international counterparts Australian councils do not carry responsibility for functions such as social and welfare services, education, health or policing that would clearly warrant a very different tax base.

Nevertheless, some significant financial problems are evident. A series of recent reports⁶ has highlighted a growing gap between the expansion of local government functions and relatively slow growth in revenues. In particular, this has led to substantial under-expenditure on asset maintenance and renewal. Moreover, the available evidence suggests that under current policy and financial settings and service expectations up to a quarter of all councils – chiefly small (in population) rural and remote councils – may not be viable into the medium term.

In 2008, the Productivity Commission reported that local government revenues were lagging growth in GDP and that nationally councils were ‘losing’ around \$1bn per annum as a result. This problem was particularly acute in NSW due to the State government’s system of rate-pegging. However, the Commission also found that all councils had some potential to raise the level of property rates within the reasonable capacity-to-pay of their communities, and that many larger urban councils could increase rate revenues very substantially – to the point where external grant support might not be necessary⁷. Nevertheless it confirmed the weak position of many rural-remote councils and suggested that there may be a case to review the current distribution of federal financial assistance grants – inferring a significant reduction (absolute or relative, depending on the total quantum of funds available) in assistance to larger urban and metropolitan areas.

All this raises important questions about the extent to which amalgamating rural-remote councils into larger units or increased resource sharing and joint service delivery by those councils could help alleviate financial problems – always assuming that such consolidation and cooperation is feasible given the potentially huge areas involved. At the same time, however, the Productivity Commission’s findings suggest there could be benefits from creating larger urban councils with a more robust revenue base.

⁶ See for example Independent Inquiry into the Financial Sustainability of NSW Local Government, *Final Report: Findings and Recommendations*, Local Government and Shires Associations, May 2006.

⁷ At <http://www.pc.gov.au/projects/study/localgovernment/docs/finalreport>

2.4 Legal and Policy Frameworks

The various forms of consolidation covered by this report may be undertaken voluntarily or imposed by states.

2.4.1 Amalgamations and boundary changes

All state local government Acts except Victoria and the Northern Territory contain provisions for statutory bodies to instigate and/or investigate restructuring or boundary changes. Table 2.4 provides brief details of the bodies operating in each state. All are advisory to the minister for local government, except in Queensland where the recently established Change Commission advises the Governor-in-Council. In NSW, Victoria and the Northern Territory the minister can ultimately make whatever decision s/he considers appropriate. Elsewhere, ministers (or the Governor-in-Council) must either act in accordance with the recommendations of the advisory body, or reject outright but not amend those recommendations. In South Australia and Western Australia the results of a referendum of electors *may* bind the minister, and in South Australia the minister must also secure the agreement of the affected local governments before taking action.

Table 2.4: Boundary Review Processes in Australian States and Northern Territory

	Name of Body	Membership	Functions/Processes
New South Wales	Local Government Boundaries Commission	4 appointed by government: chair nominated by minister; official nominated by director general of local government; 2 selected by minister from 8 nominees of LGA* and shires association	<ul style="list-style-type: none"> Role limited to advising minister, who must refer all proposals to Commission for advice Must hold public inquiry if proposal is for amalgamation of councils – but minister has option of an inquiry by the director general. May hold public inquiry into other matters if minister approves. Minister may accept/reject advice, and/or make minor modifications
Victoria	Temporary advisory panels only	Up to 5 appointed by government. Minister selects chair	<ul style="list-style-type: none"> No panel required for minor boundary changes or if affected council/s agree Panel required for restructuring reviews May conduct review as it sees fit Minister acts as s/he sees fit after considering report
Queensland	Change Commission	Electoral Commissioner alone, or Commissioner and/or Deputy plus a 'casual commissioner' appointed by Governor-in-Council	<ul style="list-style-type: none"> Commission, minister or council/s may initiate proposal Commission investigates as it sees fit but must consider views of minister and affected council/s, and hold public hearing/s Commission decides whether change is in public interest, makes recommendation to Governor-in-Council <p>NB Only minister can initiate proposal in respect of boundaries changed by 2007 amalgamations</p>

	Name of Body	Membership	Functions/Processes
Western Australia	Local Government Advisory Board	5 appointed by government: 2 by minister (chair plus departmental officer); 2 from 9 nominees of local government association; 1 from 6 nominees of Local Government Managers Australia	<ul style="list-style-type: none"> Minister must seek advice Proposals may be initiated by minister, councils, electors Inquiry usually required Board can commission investigations Minister or 10per cent of affected electors (at least 250) can require referendum, which <i>may</i> be binding Minister cannot amend Board's recommendation, only accept or reject
South Australia	Boundary Adjustment Facilitation Panel	<p>4 appointed members – 2 nominated by minister, 2 from 8 nominees of local government association. Government appoints chair from members.</p> <p>One member must be a woman.</p>	<ul style="list-style-type: none"> Panel may engage its own consultants and advisers (subject to funding) Panel has broad advisory/research role – not just advice to minister Councils and electors can initiate proposals, ask Panel to investigate, or seek its advice Panel decides if inquiry is needed – usually required for amalgamations Referendum if required by 10per cent of affected electors – and <i>may</i> be binding Ultimately only minister can act – but councils concerned must agree
Tasmania	Local Government Board	5 appointed by minister: chair plus 1 selected by minister; 1 by local government association; 1 by Local Government Managers Australia; 1 by head of department	<ul style="list-style-type: none"> Each council must be reviewed by Board at least every 8 years Proposals may be initiated by minister, councils, electors – must be referred to Board Board conducts reviews as it sees fit – must involve 'reasonable' level of consultation Minister can only act in accordance with Board's advice – or decide not to act
Northern Territory	No regular arrangement	Minister <i>may</i> appoint a commission of inquiry for particular issues – membership at minister's discretion	Minister acts as s/he sees fit.

Source: *State and Northern Territory local government Acts*

Establishment of the various arrangements set out in Table 2.4 has often been a matter of considerable debate, with local government associations usually striving to minimise the unfettered use of state executive power and secure the maximum opportunity for local input to the decision-making process, sometimes including binding referenda. However, whenever state governments have decided that widespread and substantial changes to local government boundaries are required, they have sought to by-pass the established bodies to rely instead on special mechanisms – typically one-off advisory committees or boards, or a special commission of inquiry (see case 6.6 in this report: the SE Queensland amalgamations).

In Queensland, for example, the state government introduced amending legislation in 2007 to circumvent the then existing arrangements, and to give decision-making power to the minister. New South Wales had similarly amended its legislation in 1999, although the provisions were not used until several years later. The current advisory bodies in South Australia and Tasmania were put in

place *after* major rounds of amalgamations had already been completed. Victoria undertook a wholesale restructuring in the mid 1990s on the advice of a special-purpose review board, and has not established a continuing advisory body since then. As noted earlier, the Northern Territory acted along similar lines in 2006, establishing a broadly representative, but temporary, Local Government Advisory Board.

In Western Australia the minister for local government has established mechanisms separate from the Advisory Board to promote widespread voluntary amalgamations and enhanced regional cooperation, with a view to reducing the number of councils by at least 30 per cent, but the outcome remains uncertain.

2.4.2 Other forms of consolidation

Local government Acts around the country provide for several other forms of consolidation. For example:

- The NSW Act retains provisions for 'County Councils', originally the key players in electricity distribution but now used in some regions for joint activities such as water supply, flood mitigation and noxious weeds eradication
- In WA, the Act similarly provides for 'Regional Councils' to be established by agreement between two or more councils, which can perform any of the functions of their constituent councils but cannot be directly elected or levy rates
- In both Tasmania and South East Queensland, legislation has established regional water corporations owned jointly by two or more local councils
- The SA Act provides for the establishment by councils of regional subsidiaries
- Most states have provisions facilitating voluntary cooperation in service delivery or resource sharing.

The 2009 Queensland Act offers a good example of provisions facilitating cooperation both between councils and with other governments. Section 10 states that:

- (1) A local government may exercise its powers by cooperating with 1 or more other local, State or Commonwealth governments to conduct a joint government activity.
- (2) A joint government activity includes providing a service, or operating a facility, that involves the other governments.
- (3) The cooperation with another government may take any form, including for example--
 - (a) entering into an agreement; or
 - (b) creating a joint local government entity, or joint government entity, to oversee the joint government activity.

In NSW a round of largely forced amalgamations in 2003-4 has been followed by strong state government support for regional cooperation, resource sharing and shared service delivery⁸. Voluntary regional cooperation was first encouraged nationally by the Whitlam federal government in the mid 1970s, and again by the Hawke-Keating governments in the 1980s and early 1990s. It took root across much of NSW and both during and since the last round of restructuring has been promoted as an alternative to council amalgamations. An often quoted example is the Wellington-Blayney-Cabonne 'strategic alliance' in the central western region of NSW,⁹ which was established in 2003 explicitly as an 'alternative model for local government reform'. Voluntary regional cooperation of this sort can, however, raise complex issues of governance and may be fragile: the case study of the strategic alliance (case 6.2.1 in this report) illustrates the difficulties that can arise.

⁸ NSW Department of Local Government (2006) *A New Direction for Local Government: A Position Paper*, Sydney.

⁹ At <http://www.wbcalliance.nsw.gov.au>

Regional cooperation has also been promoted in other states as both a worthwhile strategy in its own right and as an alternative to amalgamations. In Western Australia, for example, councils in thinly populated regions such as the Pilbara and Kimberley, where amalgamations are not practicable, are being encouraged to form 'Regional Collaborative Groups' to scope options for shared services or other longer term forms of collaboration.¹⁰ The Pilbara already has a formal Regional Council.

In South Australia a network of regional local government associations (separate from but working with the state association) has existed for more than 30 years, and there is a single Metropolitan Local Government Group within the state association. The local government Act permits councils to undertake all their activities across boundaries, except for elections and setting rates. This perhaps raises questions as to why shared services are not more widespread.

Agendas for regional cooperation vary widely, from regional organisations of councils focused mainly on advocacy, to regional planning, 'back-office' functions, procurement, service delivery such as waste disposal, commercial enterprises, and shared chief executives or professional staff. Overall, however, the evidence suggests that relatively few voluntary regional organisations are really active across a substantial and lasting agenda.

State local government associations are another important arena for cooperation between councils. In several states they are significant providers of legal and technical support to councils (often smaller councils in particular) and provide a mechanism for shared services in fields such as finance, education and training, purchasing or insurance. Some of these activities of associations have been given legislative recognition and support, such as the 1983 Act establishing the Local Government Finance Authority in South Australia. There are also examples of shared services for councils being provided by state government agencies either as part of explicit agreements with local government associations or as an adjunct to the achievement of state policy agendas.

2.5 Community of Interest and Local Democracy

Whilst economic efficiency has been most commonly invoked as a reason for amalgamating councils, those local government Acts that set out criteria to be taken into account when considering boundary changes tend to dwell as much on matters of community of interest, local values, impacts of change and democratic representation – although the relative weighting to be given to such factors is not stipulated. In Queensland, for instance, the Local Government Regulation of 2005 states that:

the external boundaries of a local government area should be drawn in a way that has regard to community of interest, including that the local government area should generally-

- (a) reflect local communities, for example, the geographical pattern of human activities (where people live, work and engage in leisure activities), and the linkages between local communities; and
- (b) have a centre, or centres, of administration and service easily accessible to its population; and
- (c) ensure effective elected representation for residents and ratepayers; and
- (d) have external boundaries that-
 - (i) do not divide local neighbourhoods or adjacent rural and urban areas with common interests or interdependencies, including, for example, economic, cultural and ethnic interests or interdependencies; and
 - (ii) subject to the water catchment principle--follow the natural geographical features and non-natural features separating different communities; and
 - (iii) do not dissect properties.

¹⁰ At <http://www.dlg.wa.gov.au/Content/LG/LGReform/CommitteesWorkingGroups/RTC.aspx>

Community of interest is often debated vigorously when boundaries are under consideration, but can be a difficult concept to pin down, especially given the complexity and mobility of modern society: Moore¹¹ notes people's complex web of loyalties and interests, and that on average each Melbourne municipality experiences a 35 per cent turnover in population every five years. Similarly, Kiss¹² argues that the concept of community as applied in recent discourse about the value of local government as a democratic institution is both 'confused and contentious'.

A related issue is whether recent structural reforms have paid too little attention to the democratic dimension of local government, and concern in some quarters that communities face a growing 'democratic deficit'. Kiss¹³ highlights the steep drop in the number of elected councillors across Australia during the 1990s, due to council amalgamations. There has been a universal tendency for amalgamated councils to have many fewer elected councillors than the combined total of their predecessors, sometimes as few as seven or nine for a population of 150,000. At the same time, the NSW government at least has had a deliberate policy of reducing councillor numbers within *existing* councils¹⁴. Similarly, SA legislation requires councils with more than 12 members to consider in their regular representation reviews whether they should reduce the number. Kiss¹⁵ points out that the ratio of councillors to population in Australia far exceeds typical ratios in Europe. Moreover, the creation of larger local government units has not been matched by the establishment of subsidiary bodies, such as the 'community boards' that exist in parts of New Zealand – although some councils have established informal neighbourhood committees or forums.

2.6 Towards 'Strategic Capacity'

The 2007-08 Queensland amalgamations can be seen to represent a decisive shift in the debate about structural reform. From the outset the priority was to create a more robust and capable system of local government, with no mention of economies of scale or reducing rates. Thus amendments to the local government act stated the objectives of reform to be as follows:

- Facilitate optimum service delivery to Queensland communities
- Ensure that local governments effectively contribute to and participate in Queensland regional economies
- Manage economic, environmental and social planning consistently with *regional* (emphasis added) communities of interest
- Effectively partner local government with other levels of government to ensure sustainable and viable communities.

The Reform Commission reported in July 2007. Its recommendations involved widespread amalgamation of councils and boundary changes to reduce the total number from 157 (including former Indigenous community councils) to 73. The Commission's argument was that local government must be capable of responding to the varied challenges facing different regions of Queensland. This required organisations with the requisite 'knowledge, creativity and innovation', as well as adequate financial capacity and skills both to deliver services efficiently and to plan effectively¹⁶.

In the case of the rapidly growing metropolitan area of South East Queensland, this approach resulted in recommendations for nearly all the urban area to be encompassed by just seven local

¹¹ Moore, D. (1996) 'The Financial Benefits of Local Government Reform' in P. Johnstone and R. Kiss (eds) *Governing Local Communities – the future begins*, Centre for Public Policy, University of Melbourne, Melbourne, p. 71.

¹² Kiss, R. (2003) Reasserting Local Democracy, in Dallery, B., Marshall, N. and Worthington, A (eds) *Reshaping Australian Local Government*, UNSW Press, Sydney, p. 104.

¹³ *ibid.*, p. 109.

¹⁴ NSW Department of Local Government (2006) *A New Direction for Local Government: A Position Paper*. Sydney, p. 15.

¹⁵ Kiss, *op.cit.*, pp. 109-110.

¹⁶ Local Government Reform Commission (Queensland) (2007), report, volume 1, at: <http://www.dip.qld.gov.au/resources/report/commission-recommendation/vol-01/volume-1-report.pdf> pp. 4-5.

councils, most with current or projected populations of 500,000 or more. This contrasts markedly with the situation in other metropolitan areas – even after the amalgamations that took place in Melbourne and Adelaide in the 1990s. Indeed, the chief proponent of amalgamations in Victoria had been satisfied that an average population for Melbourne councils of around 100,000 would be sufficient to capture economies of scale whilst continuing to reflect local interests and aspirations¹⁷.

The need to enhance the strategic capacity of councils in metropolitan areas had been highlighted previously by Kevin Sproats in his report on the structure of local government in inner Sydney.¹⁸ He argued in favour of replacing the existing eight councils with just four on the grounds that this would, amongst other things:

- Enhance the capacity of local government in the inner Sydney area to undertake strategic and policy planning
- Facilitate inner Sydney local governments' ability to deal with regional issues and to take a broader focus
- Encourage a more effective whole-of-government approach to the future evolution of the inner Sydney area
- Achieve an ongoing vibrant and viable system of local government in inner Sydney capable of responding to change
- Ensure the City of Sydney's position as a global city.

In the event the state government decided only to amalgamate the City of Sydney and South Sydney councils, but debate continues on the need for further action. Business groups in particular argue that the number of councils in the Sydney metropolitan area should be reduced from the present 40 plus to around 10-12 to improve strategic planning, enable improvements to infrastructure and services, and, perhaps, achieve economies of scale¹⁹.

2.7 Future Prospects

Looking to the future, three key themes can be identified from Australia's diverse experience of local government restructuring over the past 30-40 years.

First, there have been two quite distinct goals of structural reform – a search for economies of scale and more effective service delivery on the one hand; and the need for financial viability and strategic capacity to meet emerging challenges on the other. These goals are, of course, inter-related, but do reflect significantly different policy agendas relating to perceptions of the changing role of local government in Australia's federal system. The more recent emphasis on building strategic capacity, exemplified in the terms of reference and report of the Queensland Local Government Reform Commission, highlights a growing consensus that local government should play more of a developmental role, responding to the varied needs and circumstances of different regions and communities. This applied particularly to areas experiencing rapid economic and population growth, such as South East Queensland, where the Commission favoured very large councils.²⁰ To do this, it must be able to generate and/or obtain access to greater resources and skills: the Queensland Commission thus favoured larger, more robust units. The counter argument is that resource sharing through strategic alliances or regional organisations of councils can achieve the same result²¹, but

¹⁷ Moore, D. (1996) 'The Financial Benefits of Local Government Reform' in P. Johnstone and R. Kiss (eds) *Governing Local Communities – the future begins*, Centre for Public Policy, University of Melbourne, Melbourne, p. 67-68.

¹⁸ Sproats, K. (2001) *Inquiry into the Structure of Local Government in Eight Council Areas in the Inner City and Eastern Suburbs of Sydney*, p. 50.

¹⁹ NSW Business Chamber (undated) *10 Big Ideas to Grow NSW*, The Chamber, Sydney.

²⁰ The same issue is raised in the federal government's recent discussion paper on national urban policy. See Australian Government (2010) *Our Cities – Discussion Paper: A national strategy for the future of Australian cities*, Canberra.

²¹ See for example, Dollery, B and Marshall, N. (2003) *Future Directions*, in Dollery, B., Marshall, N. and Worthington, A (eds) *Reshaping Australian Local Government*, UNSW Press, Sydney, p. 247.

clearly this depends in the first instance on the scope and durability of those cooperative arrangements.

Second, structural change is to be seen as just one part of broader packages of local government reforms. In Victoria it was accompanied by enforced reductions in rates and compulsory competitive tendering of council services, intended to foster greater efficiency. In South Australia, it was the first step in a three-phase reform program²² – followed by a comprehensive review and rewrite of the local government act, and then further steps in functional and financial reform (although the local government association had argued for the order to be reversed). Similarly in Queensland, the 2007 amalgamations have been followed by a new local government act. In Western Australia, current moves for structural reform have been linked to the introduction of new requirements for strategic and corporate planning. This setting of structural change within a broader reform context also highlights the need to consider questions of local democracy, including the level of political representation and how best to foster community engagement in civic affairs. Should councillors be seen as a ‘board of directors’ restricted largely to setting policy and leaving managers to manage, in which case fewer are required and council areas could be much larger, or does effective local democracy demand smaller units and a higher ratio of councillors to constituents?

Third, there is now widespread acceptance that appropriate structural solutions will differ considerably from one region to another, including within states. This reflects the increasingly diverse environmental, economic, social and financial contexts within which local governments operate and the varied challenges they face. ‘One size fits all’ approaches are being abandoned: the Queensland amalgamations did not extend to thinly populated rural regions nor to most of the small Indigenous councils; and in both NSW and Western Australia state governments have accepted that various forms of regional cooperation may in some situations be a better solution than larger councils. This presents an intriguing challenge to local councils to find the best way forward in their particular circumstances, and perhaps sets the scene for much greater legislative, functional and structural variation within systems of local government.

²² Procter, C. (2002), *Local Government Reform in South Australia*, presented at ‘The Cutting Edge of Change: Shaping Local Government for the 21st Century’ conference, UNE, Armidale.



3. SOUTH AUSTRALIAN EXPERIENCE

This section provides a perspective on the current situation of local government in South Australia as part of the background to the broader discussion of the options for consolidation and other proposed reforms. It has been informed by a review of literature relating to South Australian local government, discussions with representatives of the LGASA, and interviews with selected stakeholders and participants in the 1990s reforms and subsequent developments.

3.1 The Reform Agenda

3.1.1 From partnership to amalgamations

The early 1990s saw the introduction of two key changes that continue to influence local government in South Australia; the adoption of a partnership model to guide state-local government relations and the implementation of a voluntary approach to council amalgamations.

In the late 1980s pressures for more effective service provision and to reduce duplication in service delivery by councils led to the negotiation of a reform program between the Labor state government and the LGASA. This culminated in the signing in 1990 of a Memorandum of Understanding, which confirmed the cooperative nature of this arrangement. The Department of Local Government and the Boundaries Commission were abolished and a range of functions devolved to local government.

As Procter²³ points out, this partnership agreement led to an enduring convention in South Australian politics that local government is seen as a separate sphere of governance in its own right and not purely as a creature of state government.

However, the 1990s was also a period in which many governments promoted more radical public sector reforms such as deregulation, competitive neutrality, cost cutting and achieving much greater efficiencies in service delivery. Consequently a number of jurisdictions, in particular New Zealand and Victoria, had already embarked on major local government amalgamation and rationalisation programs.

As in Victoria, these demands in South Australia were intensified by the state's poorly performing economy and the collapse of major financial institutions. A new Liberal government, elected in 1993, sought to implement an ambitious program of public sector reforms as part of its strategy to strengthen the state's economy. It decided to expand significantly the local government reform agenda it had inherited from the previous government, linking it to the wider public sector reforms. Councils were not only expected to improve their operational capacity but also to increase their efficiency and effectiveness, responding to the same intense pressures as the state public sector to deliver services with more limited resources.

²³ *ibid.*

This approach has to be seen in the context of local government at the time. In the early 1990s, there were 122 councils in South Australia with an average population per council of 11,795 and an average area of 8,065 square kilometres (the number of councils had dropped to 118 by 1993). This meant that South Australia was ranked fifth out of the six Australian states and New Zealand in terms of average council populations and third in terms of average area (though at the time there was relatively little variation between South Australia, Western Australia and Tasmania in terms of average populations).

The state had, and continues to have, a particularly high proportion of its population located in its capital city, while development outside Adelaide is very dispersed, with relatively small regional centres. Partly as a result the state had developed a pattern of very small rural councils, usually based on small towns and serving a sparsely populated hinterland. Councils within the metropolitan area were also relatively small.

In 1995 the government established the Municipal Advisory Group (MAG) on Local Government Reform to review the number of councils in the state and their operations. The MAG recommended sweeping compulsory amalgamations as the only way to achieve the government's reform agenda²⁴, explicitly rejecting alternative forms of council consolidation and cooperation.

Partly because of the strong negative reaction to the compulsory amalgamations instituted by the Victorian government, but also its own policy position against forced amalgamations and the partnership approach to inter-governmental relations which it had inherited, the South Australian government did not adopt the MAG recommendations. Instead it appointed a Local Government Boundary Reform Board to oversee a strategy that strongly encouraged voluntary amalgamations but ultimately left it up to individual councils and communities to decide whether and with whom they would amalgamate.

There were also no restrictions or even guidelines on the size, shape or strategic goal for these amalgamations. The 'headline' result was a reduction in the number of councils from 118 to 68²⁵. However, some councils successfully resisted amalgamations, while several proposals resulted in amalgamated councils that were still relatively small or which may not have represented the best available combinations.

This meant that another outcome of the process was a higher level of variation in the area and population of South Australian councils compared with Victoria, even within similar categories, a range which remains to this day. Some argue that this was an appropriate response, recognising regional differences (Victoria has no areas as sparsely settled as many areas in SA). Others consider the level of variation, particularly in the metropolitan area, less than optimal. There is a correspondingly wide range of views about the success or otherwise of the South Australian amalgamation model in the context of the four key research themes of efficiency, improved service delivery, local democracy and strategic capacity.

For example, while some observers question the extent to which it was genuinely 'voluntary', the decision to leave councillors in place while the process was implemented and to allow councils to develop their own amalgamation proposals without imposing any mandatory parameters, such as council size, can be seen as retaining a strong commitment to notions of local democracy. However, other observers believe that the process did not go nearly far enough in creating larger councils that could provide a platform for democratic participation at a more strategic level.

²⁴ Ministerial Advisory Group on Local Government Reform (1995), *Reform of Local Government in South Australia: Councils of the Future*, Ministerial Advisory Group on Local Government Reform, Adelaide.

²⁵ Local Government Boundary Reform Board (1998), *Local Government Boundary Reform Board 1996-1998 Report*, State Government of South Australia, Adelaide.

There has been greater agreement that the immediate cost savings and efficiency gains resulting from the amalgamations (valued by the Reform Board at \$19.4 million annually plus a \$3.9 million one-off saving) were relatively modest and are by themselves not the most important outcome. Some believe that this confirms a pattern of over-promise and under-delivery of the financial benefits claimed by the promoters of amalgamations, especially in view of the disruption and transitional costs involved. Others who were and are supportive of amalgamations contend that a mandatory approach would have achieved a better outcome and that in any event making savings should not be the main goal of council consolidation.

The one point of widespread consensus is that there were substantial if uneven improvements in strategic capacity and service delivery, which were much more important legacies of the process. Ironically these goals received relatively limited recognition in the establishment of the amalgamation framework, which as indicated earlier did not mandate any outcomes relating to strategic capacity. As the Reform Board conceded, while there was some regard to strategic considerations, these had been 'a consequence of the process, not the driving force.'

There is also agreement that even the councils that did not amalgamate also improved their capacity to act strategically through participation in the process. Councils were required to consider their goals and objectives in a more strategic context and to engage in discussions with their neighbours around these issues, even if the amalgamation proposals did not proceed to fruition. However, critics of the process believe that the uneven results did not maximise the potential for better strategic outcomes.

Another factor for consideration is the level of support and involvement by the LGASA, in discussions between groups of councils, in promoting problem-solving scenarios, and through the provision of substantial manuals providing frameworks to assess amalgamation options and undertake implementation. Such levels of support would probably not have been possible in a climate of forced amalgamation.

3.1.2 Legislative reforms

While council amalgamations were the centrepiece of the 1990s reforms, these also involved major legislative changes. The 1934 *Local Government Act* had been updated frequently but not extensively revised. The consequent need to reform the act coincided with the new state government's agenda to increase the efficiency and effectiveness of the local government sector as part of its wider public sector reforms.

After extensive consultation with local government representatives and other interested parties, the revised act was adopted by the Parliament of South Australia in 1999. Again the LGASA played an extremely active role both in researching and consulting with councils and in negotiating with the government and the parliament (where minor parties and independents have long held the balance of power in the upper house). The aims of the legislative package included recognition of the fundamental importance of local government to the South Australian community, modernisation of the operational framework for councils and in those areas affected by the Act, clarification of the roles of state and local government.

The Act also set out an accountability framework and management cycle for council forward planning, budgeting and performance reporting. It also required councils to have an explicit role with other councils and state and national governments in setting public policy and achieving regional, state and national objectives and to take these into account in the management of local communities. These changes continue to define the strategic framework for South Australian councils. A notable outcome was a more limited oversight and regulatory role for the state minister, in favour of provisions designed to enhance councils' accountability to communities – again

consistent with the concept of separate governments and partnership. The LGASA has played an ongoing role developing model policies and practices to assist councils in this regard.

3.1.3 Functional and financial reforms

The reform process of the 1990s which had commenced with amalgamations, legislative changes and other structural reforms continued into the next decade with a shift in agenda to concentrate on functional and financial reforms. The functional reform process commenced with a review of joint state/local government activities, which formed the basis for a state/local partnerships program adopted in 2001. However, this program was not resourced in any substantial way and delivered relatively little before the 2002 elections resulted in a change in government.

A more robust State/Local Government Relations Agreement was adopted in 2004 and updated in 2006 and again in February 2011, aimed at achieving better coordination between the two spheres of government. The agreement incorporates a Schedule of Priorities, which is signed annually by the state premier and the LGASA president. In addition the government and association have agreed on processes to consult when legislative amendments are proposed which could impact on local government²⁶.

During this period key financial reforms were initiated by local government: for example, in 2005 the LGASA established an independent Financial Sustainability Review Board (FSRB) to assess the financial capacity and sustainability of councils throughout the state. The association provided the board with substantial resources allowing it to engage consultants to provide a high level of support and analysis.

The FSRB found that 26 councils appeared to be unsustainable on existing policy settings in the longer term, while only about a third were regarded as being in a satisfactory financial state. Significantly, the FSRB did not find a relationship between a council's size and whether it was amalgamated or otherwise, and financial sustainability²⁷. Rather, it found that relative growth rates play a larger role in financial sustainability than size or density, but that all three explain only a fraction of differences, concluding that information/advice and policy choices were more responsible for outcomes. Indeed, the Board noted that poor financial governance affected many councils, noting that 'a cash accounting mindset and short-term (one-year) planning horizon' still overwhelmingly prevailed among councillors and senior staff.

In response to the FSRB's findings, the LGASA established a program to improve sustainability, including strategies to improve councils' long-term financial planning and asset management. It received support in this endeavour from both the state treasury and the SA Local Government Grants Commission. In addition requirements for long-term financial plans and asset and infrastructure management plans were included in the local government Act.

There is broad consensus that the FSRB's assessment of the extent of the problem was largely correct. However there is a range of views about the degree to which councils have responded to the FSRB's recommendations and the LGASA's resulting program: while some believe it was a 'wake-up call' for local government with the recommendations being adopted by the majority of councils, others consider that many councils still have not embraced the reforms fully and therefore remain vulnerable. However, the evidence in the form of aggregate accounts shows significant improvement, and the LGASA is now publishing sector-wide data in reports to its annual general

²⁶ Government of South Australia and the Local Government Association of South Australia (2006), *State-Local Government Relations: An agreement between the State Government and Local Government in South Australia*, Government of South Australia/LGASA, Adelaide.

²⁷ Financial Sustainability Review Board (2005), *Local Government in South Australia: Assessing Financial Sustainability*, Financial Sustainability Review Board, Adelaide.

meeting, and continues to promote the publication of standard summary statistics by individual councils so that an accurate assessment of the situation can be compiled.

3.1.4 Development of shared services

The LGASA has also been active in establishing a number of entities and activities to provide services to member councils across South Australia. These include workers compensation, public liability and professional indemnity, asset insurance, (and associated risk management services) superannuation and bulk purchasing arrangements. Perhaps the most significant of these shared services is the Local Government Finance Authority, which borrows and invests in bulk for councils.

In addition, as noted earlier, there are six regional associations to provide a framework for councils to undertake joint activities in rural areas, as well as a seventh grouping, the Metropolitan Local Government Group (MLGG), which covers all metropolitan councils. However, these organisations appear to concentrate mainly on strategic planning, advocacy and policy development, rather than shared services.

While recognising these efforts the FSRB report urged councils, especially smaller councils, to consider developing further resource sharing initiatives both at local and regional and state-wide levels to assist in achieving greater efficiency in service delivery. In November 2006 the LGASA in consultation with Local Government Corporate Services (LGCS – now a company wholly owned by the LGASA) commissioned a survey to establish the nature and extent of shared services arrangements between councils. The survey's key finding was that while there were a number of initiatives these were confined to 'a narrow range of activities'. However, these activities could provide a template for other areas that were outlined in the report.

The survey report also concluded that while achieving economies of scale and reducing costs were cited as the basis for many resource-sharing activities, only a small number could quantify the resulting savings. In addition the rationale for these initiatives do not always relate to achieving economic outcomes; councils also entered these arrangements to provide community leadership or to provide services not otherwise available to their communities.

In response to the report's recommendations, the LGASA in conjunction with LGCS and Local Government Managers Australia (SA) conducted a Shared Services Forum in 2007 to discuss priorities and implementation strategies for the opportunities identified in the survey. The outcomes were collated into an implementation framework for shared services in local government and a reference group was established to guide the process. This involved case studies and establishment of a shared services network to share information and provide a basis to establish new collaborative initiatives²⁸.

The LGASA has also continued to develop its own services including its Education and Training Service; an Electronic Services Program (which among other initiatives manages arrangements for common website content management for almost all councils); a model documents and procedures program; the Community Wastewater Management Scheme; and ongoing Financial and Asset Management Services. There are evident synergies between these programs.

While the state-wide shared services initiatives established by the LGASA seem to be working well, there seems to be surprisingly little consensus about the extent to which shared services initiatives at the regional or local levels have succeeded. Although a number of successful regional or local projects have been initiated, there is a sense that overall the momentum has stalled. Several observers also see little enthusiasm in larger councils for shared services initiatives as the work

²⁸ Tony Lawson Consulting (2007) *Review of South Australian Local Government Joint Service Delivery Opportunities: Analysis of Council Responses to a Survey and Options for Implementation of Various Resource Sharing Measures*, LGASA, Adelaide.

involved in establishing and maintaining them falls disproportionately on these councils, which also get the least financial return. Others believe that the overall benefits are relatively modest for the effort involved, compared to those that could be generated if the services were either managed by a single council or corporate entity.

Even some of those who are more supportive of the shared services concept suggest that it has not lived up to its potential. This is due to a combination of factors including a limited understanding of the sophisticated approaches needed to make shared services operate properly as well as an underestimation of the significant levels of investment required in staff and other resources.

3.2 Current Challenges

The legacy of two decades of reform in South Australian local government is a complex and sometimes contradictory set of outcomes. As indicated before, the 1990s amalgamation process reduced the number of councils from 118 to 68, yet their voluntary nature and lack of any set parameters meant the results were very uneven. Even 15 years later, 26 councils still have populations of less than 5,000. And although the state government pursued amalgamations primarily to drive efficiencies and cost reforms in the delivery of council services, the outcomes in this regard were relatively modest. It remains unclear whether South Australia was a good example of applying approaches which responded appropriately to regional differences and needs, or one which delivered haphazard results – or a combination of both.

Meanwhile there is widespread agreement that the most significant outcome was one that was not fully appreciated when the amalgamations process was established; a dramatic increase in the strategic capacity of all South Australian councils, especially in relation to planning.

In addition shared services arrangements have been promoted and local government has organised itself into a regional advocacy, policy development and management framework which is potentially more effective than that found in most other jurisdictions. However, it would seem that relatively little progress has been made in expanding shared services at local and regional levels since the release of the 2007 framework, with some observers remaining critical of the capacity of councils to create shared services initiatives that are of real benefit.

There appears to be some support for another round of amalgamations, though there is less agreement regarding what form this should take. Some believe that the only effective way to make further substantial progress in addressing the challenges facing local government is through amalgamations, though it is widely accepted that this is unlikely in the current political environment. Others point to the findings of the FSRB report of the lack of any correlation between amalgamation, size and financial performance, and question the effectiveness and relevance of this approach.

Within this context, interviews with key stakeholders and observers identified the following challenges which South Australian councils currently face.

3.2.1 Council capacity

The state government's 30-year plan for South Australia places a lot of pressure on councils to be proactive in strategic planning for their communities and in negotiating with the government regarding the provision of infrastructure and services. There is a question mark over the capacity of some councils and councillors to deliver these outcomes, especially in light of low voter turnouts at elections and the lack of community engagement with councils in some areas. It is fair to note here that many councils also question the capacity of the state to address cross-departmental coordination requirements of the plan, and that the LGASA has been working to secure a memorandum of understanding with the government aimed at forging effective processes to address both sets of issues.

In addition there is a strong view that despite the major gains made by councils through the 1990s amalgamation process, much more needs to be done to improve the overall strategic capacity of local government. This is exacerbated by the range in the size of councils in South Australia, as much in terms of overall budget as in population, which means that the larger councils are able to undertake major strategic projects that cannot be contemplated by the smaller councils.

3.2.2 Rural councils

Despite the FSRB's assessment that larger councils do not necessarily enjoy greater financial sustainability, there is concern over the ongoing financial viability of some of the state's smaller councils and in particular their ability to meet the increasingly high standards of accountability and governance performance expected of them.

However, it is also unclear that further amalgamations would greatly improve the position of the very small councils, especially given the highly dispersed nature of settlement outside metropolitan Adelaide and the costs involved in servicing these communities. An alternative suggestion is to consider introducing a 'dual-mode' system, with lower expectations of performance and/or higher levels of direct government intervention in councils in more isolated areas. This issue is not confined to South Australia and needs to be considered in a national context, in particular linked to the distribution of federal financial assistance which underpins many small councils.

3.2.3 Metropolitan councils

As mentioned earlier, the *1999 Local Government Act* gives councils a role in strategic planning and achieving regional, state and national objectives, including those relating to economic development. This means they are closely involved in managing local and regional economies in an international environment.

Globalisation poses particular challenges for Adelaide's metropolitan councils, due largely to the city's traditional manufacturing base. Adelaide suffered considerable job losses due to factory closures throughout the 1990s and early into this century. These and the subsequent impact of the Global Financial Crisis put pressure on council services and revenues.

Recently the state's economy has started to expand again, and councils now have to manage growing local economies, though the benefits of this growth continue to be unevenly spread. As a result some councils have taken on skills development projects to help ensure that local communities have the appropriate skills to match emerging employment opportunities.

Metropolitan councils also have a unique set of responsibilities and opportunities related to urban planning. Although South Australia's highly centralised population structure ensures a primary role for the state government in metropolitan planning, the *Local Government Act* and the state-local government partnership model mentioned earlier also provide an opportunity for council input and leadership.

This is reflected in the *Adelaide Futures* project launched in 2007 by the LGASA's Metropolitan Local Government Group (MLGG) to develop 'future thinking' by the city's metropolitan councils in response to the state government's plans for high levels of population growth over the next 20 years. All 19 metropolitan councils participated in this exercise, which resulted in an agreement to adopt a regional planning strategy to be led by the MLGG. As well as developing regional responses on issues such as climate change, water, housing, transport and economic development, the MLGG has undertaken to encourage each council to include regional collaboration in their strategic plans²⁹.

²⁹ Anson, G. and Giannakodakis, G. (2007), *Adelaide Futures Project. Towards a Sustainable Adelaide – Time for Action*, presentation prepared for the Local Government Association Metropolitan Local Government Group, LGASA, Adelaide.

The role of metropolitan councils in Adelaide's planning processes and the wider role of the MLGG provide good examples of cooperation and consolidation in an urban setting³⁰. However, the relative success of this regional arrangement has required complex negotiations between the 19 councils involved, which vary greatly in size and strategic capacity. This outcome, plus other factors such as the increasing mobility of the community across council boundaries, has led some to conclude that more substantial consolidation would lead to more effective metropolitan governance.

3.3 Postscript

After this research had been completed, the South Australian division of Local Government Managers Australia released a report by participants in its 2010 Emerging Leaders program on the topic 'Amalgamation: Is it a dirty word?' The report was based on survey responses from 446 stakeholders in South Australian local government – elected members, employees, state government officials, and community and private sector respondents.

3.3.1 Overview

In summary, just over 50% of all survey respondents believed that amalgamations resulted in an improvement in local government operations, and there was 54% support for further *metropolitan* council amalgamations. This reflected a widespread view that amalgamations would bring about improvements in local government operations and service delivery. However, more detailed reasons for support varied widely, and there is still a high degree of concern about the process of the amalgamations undertaken in 1997 which would need to be addressed prior to any further amalgamations proceeding. There was also a view that the cost benefits of amalgamation may be achievable through shared services and group purchasing, which have been found to work well throughout South Australia.

Importantly, the survey highlighted the need for councils and government to be very clear about what they are seeking to achieve should further amalgamations be considered, particularly as there is no 'one size fits all' option and it can take several years to recover from the expenditure and disruption involved.

3.3.2 Concerns

The survey provided further confirmation of typical concerns expressed regarding amalgamation.

These included:

- Loss of jobs, forced changes in roles and radical changes in organisation structure and culture – 41% of employees believed amalgamations had a negative impact on the workforce, and that careful planning and strong communication with employees is essential to minimize adverse effects
- Residents' concerns that council amalgamations would result in a reduction in community engagement and representation
- Risk of increased red tape and bureaucracy that can come with larger organisations
- Loss of local control over planning and building approvals – belief that the development industry would be the biggest winner of council amalgamations

³⁰ Local Government Association of South Australia (2009), *Metropolitan Local Government Group Strategic Plan 2009 – 2011*, LGASA, Adelaide.

- Smaller communities will suffer as regional centres consume the majority of resources and employment opportunities
- Negative impact on elected members and mayors
- Scepticism that savings and service improvements would be achieved.

3.3.3 Perceived benefits

Perceived benefits included:

- The dominant perceived benefit was what is described elsewhere in this report as increased 'strategic capacity'. This was expressed in terms such as: amalgamations can provide the resources to undertake projects on a larger scale; a larger organisation is often better placed to win grants and government funding; stronger negotiating positions, increased rates base, enhanced ability to lobby other tiers of government; ability to have more influence on the decisions made by other government bodies; and councils being better equipped to deal with 'big picture' issues
- Reduction of costs and overheads due to economies of scale and reduced administration, as well as a rationalisation of resources in terms of the shared use of assets, equipment and facilities – creating scope for overall improvement of service provision
- Wider variety of positions in larger councils and the opportunities for promotion or career change
- The possibility of producing a fresh start with a best practice attitude
- Reducing obstacles in implementing state programs due to inconsistencies in council policies and procedures, as well as unnecessary duplication of by-laws.



4. NEW ZEALAND OVERVIEW

4.1 Historical Context

Australian local authorities agonise over the fact that local government is not recognised in the Australian Constitution. New Zealand has no constitution in which to recognise local government.

For most of New Zealand's history, successive central governments have dealt with local government in a somewhat ad hoc way, with the one principal exception being the extensive reforms of the late 1980s and early 1990s. Throughout the 19th century and the first half of the 20th century, New Zealand local government grew a bit “like Topsy”, creating new forms of local government as new issues arose. Indeed it could be argued that the one consistent thread running through the evolution of local government was an attachment to special purpose authorities, so that by the time of the major reforms New Zealand local government was a patchwork of different types of territorial authority (counties, boroughs, town boards, cities), power boards, harbour boards, Nassella tussock authorities, pest destruction boards and more.

In part, this also reflected a combination of the balance of political power at the centre and the relatively short term of New Zealand parliaments. Conservative parties were strongly based in the rural sector, and it was the rural sector that had the smallest local authorities and the greatest attachment to resisting reform. A series of attempts at structural reform during the middle part of the 20th century all foundered on conservative opposition to change, aided by the use of mechanisms that often required a local vote in support.

4.2 Reforms of the 1980s

Reform in earnest came in the second term of the David Lange-led Labour government that held office from 1984 to 1990 (although Lange himself stood down as prime minister in August 1989). Beginning with its first term, this government led one of the most comprehensive processes of economic and public sector reform ever undertaken in a democratic country. It shifted New Zealand from an economic environment often compared with Eastern Europe in the Soviet era, to one of the most deregulated and free market-based economies in the Western world. It was a product of a shared belief between politicians and officials that fundamental reform was essential to rescue the New Zealand economy. It included a comprehensive restructuring of government departments with an emphasis on separating policy from operations, and corporatising (and often privatising) government-owned commercial activities. The wider economy was significantly deregulated. Exchange and interest-rate controls were abolished as were government controls over the direction of lending and much else besides.

In this environment, with its emphasis on the need to improve efficiency, it was inevitable that government would turn its attention to local government. The reform process itself was innovative. A 1988 amendment to the *Local Government Act* gave the Local Government Commission the task that it should ‘before the close of 1 July 1989, prepare such final reorganisation schemes as in its opinion are necessary to improve local government in New Zealand or any part of New Zealand’. To lead the task the Minister, Michael Bassett, chose as chairman of the Commission (now) Sir Brian

Elwood, a former long-term mayor of Palmerston North and a previous National party candidate. This reaching across party political boundaries was an important factor in establishing the legitimacy of a process that included adoption of final schemes by Order in Council.

Sir Brian accepted the post after gaining an assurance that Michael Bassett would not seek to intervene in any of the proposals developed by the Commission (in practice the Minister did on occasion indicate that if the Commission did want to pursue a particular proposal, he would have difficulty holding the line with his colleagues). The process itself was relatively collaborative. The Commission worked closely with Local Government New Zealand and with individual local authorities. As the Commission itself said in the memorandum which accompanied each final reorganisation scheme: 'the Commission endeavoured to involve existing authorities and retain its operational philosophy of preferring the agreed local solution to reform, where this was reasonable and accorded with the statutory provisions.'

The outcome was the replacement of approximately 800 local authorities, both general and special purpose, with 12 regional councils (primarily responsible for environmental management), one unitary council³¹ and 75 city and district ('territorial') councils.

4.3 Long-Term and Financial Planning

Structural reform was not the only focus of government. Amongst other important changes were the requirement to adopt accrual accounting, to prepare and consult on an annual plan setting out the next 12 months' activities in detail and the following two years in outline, and to adopt what became known as the 'special consultative process' (a demanding set of requirements for information provision and various forms of consultation) as a means of seeking public input on a range of specified activities, including adopting the annual plan.

Ad hoc intervention continued, however. In 1992 the then minister responsible for local government promoted legislation restricting the powers of regional councils, so that they were unable to be involved in either economic or community development (although one or two innovative councils found a way around this), and stripping the Auckland Regional Council of its major asset base (ownership of the ports, and of a major water and wastewater utility amongst others).

In parallel with this was an ongoing interest from the Auditor-General in improving the accountability of local government. In his 1993 report to Parliament on local government, the Auditor-General stated that there were a number of local authorities he could not certify as 'going concerns' as he had no way of determining the state of much of their infrastructure and thus making a judgement about the prospective impact of maintenance upgrades and renewal.

This was a principal influence on the decision of government in 1996 to impose a new accountability regime on local government intended to focus on long-term financial viability. All local authorities were to prepare a 10-year (minimum) plan (the Long Term Financial Strategy or LTFS) setting out the activities they proposed undertaking, the rationale for those, how they were to be funded (including what sections of the community would be expected to meet what portion of the cost and why), and to accompany these with financial forecasts including cash flows and balance sheets. The question of whether it should be made compulsory for local authorities to undertake asset management planning was widely discussed. It was decided not to on the basis that, because good asset management planning would be essential to the preparation of a credible LTFS, councils would naturally do this. This expectation turned out to be incorrect with, as an extreme, the country's then fastest growing council forecasting a decline in infrastructure investment over its 10-year horizon. To

³¹ A unitary council is an authority which, within its district, exercises the powers of both a regional council and a territorial local authority. The unitary council in this instance was Gisborne (on the east coast of the North Island) and the rationale was the distance involved for its district to be incorporated within the boundary of any adjoining regional Council.

the Auditor-General's chagrin, there was no provision in the legislation for any sanction, nor any way of requiring councils to comply with the intention of the legislation.

4.4 Re-shaping Local Government's Role

In 1999 the National-led government which had held office for three terms was replaced by a Labour-led government with a commitment to reviewing local government legislation and with it the role of local government. Leading members of the Labour Party were well aware of changes put in place in that country's Local Government Act 2000, placing a much stronger emphasis on community well-being as the primary focus of local government.

In its election manifesto Labour had promised to introduce a power of general competence for local government and to clean up the existing Local Government Act with its myriad of prescriptive provisions. There was strong opposition from the business community that believed a power of general competence would be a license for local government to go on a spending spree (ignoring as do most commentators the fact that the previous Act itself had what amounted to a broad power of general competence buried within it).

The new *Local Government Act 2002* redefined the role of local government in terms of local democracy and promoting the economic, cultural, social and environmental well-being of communities now and in the future. This included an obligation on councils, once every six years, to lead a process of identifying across-the-board 'community outcomes', regardless of which government or agency was responsible for delivering those outcomes³².

The Act did include a power of general competence but this was much constrained. First, the power exists 'for the purposes of performing its role' and not generally. Secondly, government significantly increased the detail, including procedural steps, governing both local government decision-making and consultation, including what became known as the four-step process to apply to any significant decision.

The requirement to produce a 10-year plan was also rewritten so that instead of focusing primarily on financial matters, it was required to focus primarily on how the council would itself, or through others, promote community outcomes. At the same time the loophole that had concerned the Auditor-General was closed. The draft 10-year plan which goes out for public consultation is required to include a report from the auditor on a range of matters, including the quality of the information and assumptions underlying the forecast information provided in the plan, and the extent to which the forecast information and performance measures provide an appropriate framework for the meaningful assessment of the levels of service provision. The Auditor-General has used this provision to specify in minute detail the processes which local authorities must go through in preparing the 10-year plan. Ironically, given that the purpose of the Auditor-General's involvement can be seen as a form of quality assurance to make sure that communities get accurate and meaningful information, the Auditor-General has required that all forecast financial information be reported in inflation-adjusted dollars. This has had a major impact on public perceptions of local authority spending, as the resultant forecasts are used and understood as though they were in dollars of the day and not inflation-adjusted dollars. This one measure by itself has had a significant impact on negative public perceptions of local government spending.

The community outcomes provisions carried with them an expectation that central government agencies would work closely with local government in those areas for which they were responsible (indeed there was a suggestion that the prime minister of the day saw this as a mechanism for

³² For analysis of the new Act, see Thomas, S. and Memon, A. (2005) 'Reinventing Local Government in New Zealand? A Critical Reflection on the Local Government Act 2002', Environmental Management Group, Environment, Society and Design, Lincoln University, at <http://www.waikato.ac.nz/igci/pucm/Linked%20documents/LGA-discussion.pdf>

breaking down Wellington's departmental silos). There has been some increased liaison, but it has been patchy at best.

4.5 Current Issues

Since the 2002 legislation the principal focus of successive governments has been the governance of Auckland, driven by a perception that Auckland's local authorities were incapable of taking and implementing major region-wide decisions so that transport infrastructure, for example, was falling badly behind needs.

The Labour government first made a series of ad hoc changes in areas such as major asset ownership and transport planning, and then put in place a Royal Commission to consider governance options. The Commission reported in support of a single unitary council for the Auckland region. The present government has legislated for such a council (which came into office on 1 November 2010), but with a number of changes: for example, placing most service delivery in a series of council-owned companies.

The other major concerns of central government have been environmental management including consents for development purposes and the management of water both in terms of water quality (for example coping with dairy effluent) and in allocation of water for irrigation and other uses. It has established an Environmental Protection Authority (EPA) with the power to call in or by consent hear applications of 'national significance'. There is pressure from business in particular for the EPA to play a much more substantial role in the resource consent process generally.

These initiatives have brought the existing regional council structure under question, as regional councils both play an important role in approving major development applications and are currently responsible for the management and allocation of water. In one extreme example, the government legislated to replace the elected members of Environment Canterbury, where allocation issues are at their most acute, with appointed commissioners.

For the rest of local government, both the Auckland changes and possible challenges to the role of regional councils have resulted in a renewed questioning, within the sector, of what the role and function of individual councils should be. First, in a very positive development, recent years have seen a number of encouraging shared services and collaborative initiatives emerge. Improved access to high-speed broadband has been important for this as it largely removes any barriers to the offsite storage and management of information.

Next, the creation of the Auckland 'super city' has prompted discussions in a number of other regions of the country on how they should respond. Some regions are exploiting variations on the theme of creating unitary councils. Others are looking more closely at the potential of shared services to decouple decisions about service scale from the scale of the governing body – a recognition that genuinely local governance can coexist with service arrangements (for both internal and external services) of a quite different scale.

These shifts in perception were tested in a workshop organised by Local Government New Zealand with members of its Zone 2, which comprises a mix of urban and rural councils across the mid-northern North Island. The workshop produced a broad consensus on the need to give further consideration to options for consolidation, on preferred directions, and on barriers for progress. The six questions the workshop considered, and the key points in response were:

Q1 To what extent (very little/not much/quite a lot/a great deal) and in what timeframe (urgent/within 3 years/within 6 years/on the backburner) does consolidation in local government need more attention in the New Zealand context?

A Quite a lot and within 3 years. Local government needs to control its own destiny.

Q2 What are the key drivers for more consolidation and what needs to be achieved?

A Drivers include a set of issues around capacity, economies of scale and scope, efficiency, value for money and skills, social equity, sustainability and changing expectations/demographics. Principal outcomes include accommodating growth, reducing local government's silo mentality and sharing expertise across councils.

Q3 What are the major constraints?

A Potential loss of local democracy, patch protection/personalities, and imbalance between central and local government.

Q4 What forms of consolidation should be given the highest priority? .

A Shared services commencing with a stage one problem identification and moving on to more significant shared services (IT, waste management); collaboration with central government, NGOs and the private sector including a focus on the separate provider and producer roles of local government and dialogue/communication.

Q5 What specific cases would you list as examples of current 'best practice' in consolidation?

A Bay of Plenty local authority shared services, standardising building consent practices across five Waikato local authorities, joint strategic land-use planning between the Western Bay of Plenty Councils ('Smart Growth'), the agreement between Environment Waikato and the Bay of Plenty Regional Council to work collaboratively on the management of geothermal resources, and the Waikato Region's shared valuation database.

Q6 What are the key lessons for consolidation that should be learned from the creation of the new Auckland Council, both to date and into the future?

A Identify the problem, match the solution to it, and plan and take time in implementation; the risk of loss of local democracy and the risks from a lack of political cohesion – communicate!

There are also emerging signs of an inevitable push back against Auckland itself. The newly elected Mayor has already made it clear he expects a quantum leap in central government funding for infrastructure development in Auckland. One reaction has been a move by local authorities across the South Island to look at making common cause to protect their interests with central government.

New Zealand local government is clearly entering a new phase of reflection and action on scope, scale and form. It seems possible that, for what will really be the first time in its history, the local government sector itself will play an important role in setting the direction and nature of reform rather than simply waiting for central government to intervene.



5. LITERATURE REVIEW

‘Efficiency’ has remained a primary theme in considering issues of local government performance but this glosses over the complexity of local government as a dual-purpose institution responsible both for local service delivery and for providing an important layer of local democracy³³. Local government also operates at different levels from regional to local which each have their own unique requirements.

This summary of the literature review considers the changing context for municipal consolidation by looking successively at governance, representation/local democracy, economies of scale, economies of scope, strategic capacity, the contrasting roles of producer and provider, shared services and the role of arms-length entities.

The full literature review can be found in Volume 2.

5.1 Governance

Recently in Australia there has been an increased emphasis on regional level local government coupled with a focus on improving local government's capacity to cope with the complexity of modern governance. The relationship between local government and higher tiers of government has become especially problematic – is local government simply ‘a creature of statute’ or does it have a more fundamental role in governance?

Developments in the United Kingdom also suggest a shift to the latter view with an increased emphasis on partnership working on through to the Total Place initiative, and the present coalition government's commitment to extensive devolution (although coupled with a significant reduction in funding as part of fiscal reform).

Changing patterns of local government can thus be seen as part of a broader move from *government* – the formal functioning of established institutions – to *governance* involving a broad range of stakeholders in direction setting and implementation, although the state itself still retains strong overall powers along with a primary role in coordinating and integrating the complexity and plurality of social, economic and political life³⁴. Strengthening local government itself is also part of strengthening local democracy, a role where states are often seen as having failed³⁵.

³³ Copus, C. (2006) British Local Government: A Case for a New Constitutional Settlement, *Public Policy and Administration* 21(4).

³⁴ Aulich, C. (2009) From Citizen Participation to Participatory Governance in Australian Local Government, *Commonwealth Journal of Local Governance* issue 2, at: <http://epress.lib.uts.edu.au/ojs/index.php/cjlg>

Reddel, T. (2004) Exploring the Institutional Dimensions of Local Governance and Community Strengthening: Linking Empirical and Theoretical Debates. Griffith University Urban Research Program, research paper 2.

³⁵ Bailey, S. And Elliott, M. (2009) Taking Local Government Seriously: Democracy, Autonomy and the Constitution, *Cambridge Law Journal*, 68(2) pp. 436–472.

5.2 Representation/Local Democracy

Voter turnout is often seen as a proxy measure for confidence in local government, with falling turnout seen as an issue requiring a government response. Recent research suggests there may be a crucial relationship between representation ratios (the ratio of elected members to population), trust in local government and voter turnout³⁶.

However other research suggests that citizens are now looking for different means of engagement with voting being less significant than formerly. Haus and Sweeting³⁷ advance four concepts of engagement: representation, user, network and participatory. Schaap *et al* develop a similar typology from a cross-country study of European local government³⁸.

Recent changes in Australia, for example, community planning in Victoria, and New South Wales' integrated planning and reporting framework, reflect both an interest in developing new means of engagement and a recognition that conventional means of consultation are falling out of favour.

5.3 Economies of Scale

An enduring theme is the perception that municipal consolidation will result in gains through economies of scale. Our review of the literature makes it clear there is insufficient robust research to support this proposition.

Economies of scale exist when long-running average total costs fall as the scale of production increases, generally where fixed costs are a large proportion of total costs. Services such as water, wastewater and solid waste management provide examples where economies of scale are more likely to be evident. The notion of economies of scale has been seen as particularly relevant to municipal consolidation when as a result of the joint activity, outputs remain generally constant but average costs reduce; in short, consolidation of organisations can produce the same kinds of outputs for lower costs.

Measurement problems abound in assessing whether or not economies of scale exist. They include failure to specify and scope municipal functions, lack of robust longitudinal data and problems with trying to aggregate municipal functions rather than measure function by function³⁹. Demographic characteristics will also influence service mix and cost⁴⁰.

Recent research using econometric modelling is not yet producing reliable and robust results. Problems of modelling and of significant differences in the production profile between different functions of local government contribute to the difficulties in determining economies of scale with any sense of accuracy.

³⁶ See Russell, W. (2004) Voting Obligations and Voter Turnout: discussion paper prepared for Local Government Association of Australia; Purdam, K *et al* (2008) How many elected representatives does local government need? A review of the evidence from Europe, Cathie Marsh Centre for Census and Survey Research working paper, at www.ccsr.ac.uk/publications/working/2008-06.pdf; ODPM (2002) Turnout at local elections, Office of the Deputy Prime Minister, London; Sorabji, D. (2006) *Pacing Lyons: a route map to localism*, New Local Government Network, London.

³⁷ Haus, M. and Sweeting, D. (2006) Local Democracy and Political Leadership: Drawing a Map, *Political Studies*, 54, 267-288.

³⁸ Schaap, L. *et al* (2009) Innovations in Sub-National Government in Europe, report commissioned by the Netherlands' Council for Public Administration, at www.rfv.nl/GetFile.aspx?id=903

³⁹ Bish, R. (2001) *Local Government Amalgamations: 19th Century Ideas for the 21st Century*, Howe Institute, Toronto.

Bradbury, J. and Stephenson, E. (2003) Local Government Structure and Public Expenditures, *Public Choice*, 115(1/2), 185-198.

Holcombe, R. Williams, D. (2009) Are There Economies of Scale in Municipal Government Expenditures, *Public Finance and Management*, 9(3) 416-438.

⁴⁰ Dollery, B., Crase, L., and Johnson, A. (2006) *Australian Local Government Economics*, UNSW Press, Sydney.

5.4 Economies of Scope and Strategic Capacity

Economies of scope arise when joint activity enables organisations to produce a range of products rather than each on its own, typically by making more effective use of common inputs. It involves the generation of new outputs which otherwise could not have been produced by individual organisations alone. Dollery *et al*⁴¹ argue that the most likely source of economies of scope in Australian local government is jointness of inputs, but no empirical studies have yet investigated this. However, some international studies point to possibilities, for example, where multi-tasking can more fully employ staff.

The concept of 'strategic capacity' can be seen as building on economies of scope. It concerns the ability of councils to identify and respond to factors influencing the community's future, and is more likely to be enabled when there is jointness of activity. It has been asserted that strategic capacity can be enhanced by municipal consolidation⁴² and although no empirical evidence has been advanced, the idea does have support in the literature⁴³. (This research also produced some new evidence from the case studies.)

5.5 Service Delivery

5.5.1 The contrasting roles of provider and producer

The distinction is between seeing the council as naturally the producer of those services it wishes to provide for its community, and seeing the decision to provide as inherently different from the decision on how the service should be produced. A council that understands the distinction will be much more likely to seek out the optimal means of provision than one which assumes that it should produce everything which it provides.

The United States provides perhaps the best example of a local government sector which naturally treats the two as separate with as much as 40 per cent or more of local government services being produced by parties other than the local authority which is the provider⁴⁴.

Distinguishing between provision and production can be seen as a means of enabling efficiency but it also has other advantages. First it helps support the autonomy of smaller local government units. Next it can also support co-production: citizen engagement in the production of services⁴⁵.

5.5.2 Shared services

Shared services is widely seen as a 'practical and cost-effective way for councils to share experience and resources, tackle common tasks, or take advantage of economies of scale'⁴⁶. The shared services approach is not a panacea. Success depends on a number of factors including the commitment of both political and executive management leadership.

There are some significant success stories: for example, the UK Audit Commission⁴⁷ reports substantial savings within English local government through the development of shared back-office

⁴¹ *ibid*.

⁴² for example by the Local Government Reform Commission (Queensland) (2007), report, volume 1, at <http://www.dip.qld.gov.au/resources/report/commission-recommendation/vol-01/volume-1-report.pdf>

⁴³ Dollery, B., Crase, L., and Johnson, A. *op. cit*.

⁴⁴ Warner, M. and Hefetz, A. (2009) Trends in Public and Contracted Government Services 2002-2007 Reason Foundation policy brief 80, at <http://reason.org/studies/type/64.html>

⁴⁵ Pestoff, V. (2009) Here Comes the Citizen Co-Producer, at <http://www.opendemocracy.net/openeconomy/victor-pestoff/here-comes-citizen-co-producer>

⁴⁶ Dollery, B. *et al* (2009), Shared Services in Australian Local Government: Rationale, Alternative Models and Empirical Evidence, *The Australian Journal of Public Administration*, 68 (2) 208–219.

⁴⁷ Audit Commission (2008) Back to Front, at: <http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/BackToFront8Oct08REP.pdf>

services. However, Deloitte⁴⁸ comments that ‘despite a history of tactical collaboration between [English] local authorities shared services have rarely succeeded at scale.’ Also, a recent British Columbia report⁴⁹ concludes that, 40 years on from the beginnings of its regional district approach to developing optional shared services, friction amongst different local governments can still be a barrier to effective performance.

The decision by the Royal Commission on Auckland Governance to recommend the abolition of existing councils was partly a function of doubt that they would make the changes necessary to capitalise on the potential for shared services across the Auckland region.

One important factor appears to be whether local government has access to a suitable structure for shared services. In most Australian states there are limits on local government's power to establish companies. In contrast, New Zealand councils have full authority to do so and this is proving a useful enabler of shared services activity.

5.5.3 Arms-length entities

A number of OECD countries in the past two decades have seen extensive restructuring of their public sectors substantially informed by the principles of new public management and resulting in an extensive use of corporate forms for activity that may previously have been core local government business. The forms adopted and the preconditions for their use vary significantly. Grossi and Reichard report that on average large German cities own nearly 90 companies and large Italian cities 25, but with little in the way of sector specific governance requirements, and elected members and management taking little interest so long as accounts appear to be in the black⁵⁰.

The United Kingdom has taken a different approach, with initially limited power to form companies although that is now under review. In Australia the powers given (or not given) to local government vary widely from state to state including, in South Australia, the formation of ‘subsidiaries’ rather than local authority owned companies.

An important issue is the extent to which provision is in place for post-establishment governance. England provides this through guidance issued by the Secretary of State. In New Zealand the Local Government Act establishes a comprehensive framework based largely on central government's state-owned enterprises regime. In Australia, apart from specific provisions in South Australian legislation, there is virtually no formal framework regulating post-establishment governance. The South Australian provisions themselves because of their detail may act in practice as a substantial disincentive to the formation of subsidiaries.

⁴⁸ Deloitte, (2010), Stop, Start, Save: Shared Service Delivery in Local Government, at

http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Industries/GPS/UK_GPS_StopStartSave.pdf

⁴⁹ Regional District Task Force (2010) Enhancing Tools for Problem Solving in Regions. Union of British Columbia Municipalities, at

<http://www.ubcm.ca/assets/Resolutions~and~Policy/Policy/Governance/RDTF%20Final%20Report.pdf#search=%22regiona%20district%20task%20force%22>

⁵⁰ Grossi, G. and Reichard, C. (2008) Municipal corporatization in Germany and Italy, *Public Management Review*, 10 (5) 597-617.



6. CASE STUDIES

This section presents a summary of each of the 17 case studies (some of them in pairs), which are provided in greater detail as Volume 2. It also details some of the key lessons learned from each case.

6.1 Shared Services

6.1.1 Bay of Plenty and Waikato Local Authority Shared Services

This case focuses on Bay of Plenty Local Authority Shared Services Ltd (BOPLASS), a separate entity established to provide services to a region in New Zealand. It was based on an earlier variation adopted in a nearby region, Waikato LASS Ltd. Its genesis was in the need to establish a 'radical collaboration', in part to obviate the possibility of amalgamation, in part to protect local governance. The critical element is the establishment of a formal entity to deliver shared services, based heavily on the introduction of a high-speed fibre-optic network linking all of the councils.

Building trust among participants is critical to developing confidence in shared services. Important factors include starting small, gaining some early successes, and clear and accurate reporting of financial information.

Governance matters as does chief executive commitment. This is both choosing an appropriate structure, and understanding what makes for good governance. Waikato's failure to engage all councils at board level contrasts with Bay of Plenty's insistence that all councils be represented by their chief executives, and that chief executives understood the different roles they brought to the board table.

There is a fundamental difference between 'shared services' expressed as a single provider selling services to individual councils, and 'shared services' as a means of facilitating different councils to develop specialisations which they can then perform for other councils. The emerging 'centres of excellence' model in the Bay of Plenty reinforces the autonomy and capability of smaller councils. The more conventional approach of a single provider selling services would threaten that autonomy and undermine support for shared services.

Conceptualising shared services as fundamentally an exercise in information management is a major breakthrough – it removes any concern over the loss of access to/control of data and is also key to a genuine 'centres of excellence' approach. It also opens up the potential for each service for which a council is responsible to be managed and delivered so as to optimise economies of scale without the need to take the potentially disruptive approach of amalgamation.

6.1.2 Eastern Health Authority (EHA), South Australia

The EHA provides a range of environmental health services to the community on behalf of five councils in the eastern and inner northern suburbs of Adelaide. It is a regional subsidiary established under Section 43 of the *Local Government Act 1999*.

This is a traditional shared services model with one entity providing services for its constituent organisations. The EHA experience demonstrates that this kind of arrangement can work with positive feedback from clients. Its successes include the following:

- Ability to attract and retain skilled and competent staff
- Transparency and accountability of operations and cost structures
- Improved relationships, communication and reporting over recent times
- Ability to more quickly respond to new legislative requirements
- Development of a fair and equitable funding formula
- Efficient and effective service delivery as evidenced by community satisfaction surveys.

There are some concerns. While the 'arm's length arrangement' provides some protections and guarantees a level of continuity for the service, council CEOs do not have control over the activities of the authority and this may represent a deterrent to establishing similar organisations for other services. The Authority also needs to work hard to ensure that it is not seen as an outsider organisation by its constituent councils.

6.1.3 North-East Councils, South Australia

This case study reviewed the experiences of four small rural councils in the South Australian Flinders Ranges. Their combined population is less than 8000. The councils have worked together successfully and shared staff in areas such as development assessment, environmental health, auditing and fire safety – although the experience of two of the councils with shared corporate services between 1997 and 2003 was not positive. Nevertheless, all four have entered into an alliance known as the Flinders Shared Services Group. This is coordinated by the council CEOs with input from councillors.

With assistance from the LGASA, the Group has completed a scoping study and a lengthy consultation process around options for extending shared services into administrative functions as well as waste services. However, well into the negotiations, one council resolved not to proceed with shared administrative services, and two chose to join an alternative group for waste management.

Prospects also exist for shared arrangements with the City of Port Augusta, which while not interested in an amalgamation, has indicated a willingness to share resources with its neighbours. This presents real opportunities for access to a larger range of facilities and programs, as well as a greater number of specialised professionals.

Although work around shared services continues, long term financial viability is an issue for most of the four councils. There have been moves to explore amalgamations, but these have not progressed due to concerns about local identity, maintenance of services and job losses.

Key findings of the case study include:

- Whilst increased efficiency and professionalism were seen as benefits, the impetus for shared services derived to a large extent from the fact that for positions such as the Development Officer and Environmental Health Compliance Officer, there was simply not enough work for a full time employee in any one council. There has been no formal

evaluation on the impact of shared arrangements on service levels.

- Although strengthening strategic capacity was not a primary objective of shared services, the arrangements have allowed for employment of more specialised staff with strategic as well as operational skills. It was acknowledged that as small rural councils it was difficult to get the necessary support and backing of the state government. Economic growth strategies in particular require resources and influence beyond the current capacity of the individual councils.
- Communities in these council areas are generally satisfied with their local councillors and reluctant to lose this level of representation. However, there are examples where residents were sufficiently unhappy with the quality of representation to seek to be part of another council area.
- The compliance burden on small councils is already very high, so additional administrative responsibilities associated with partnerships need to be properly resourced. Formal agreements and structures need to be well thought through to accommodate the needs of the member councils and to ensure their practical workability. Entering into shared arrangements just to avoid amalgamations is problematic; there has to be a real commitment to the value of a shared service arrangement for it to work.

6.1.4 Sharing a CEO (WA)

There have been a number of Western Australian shires that have entered an arrangement whereby they share a CEO. In the case of the Shires of Broomehill and Tambellup, the shared CEO arrangement led to an amalgamation of the two councils in July 2008.

The arrangement met a number of the success criteria such as reduced costs, improved strategic capacity and enhanced service delivery capacity. It also led to a re-examination of their current arrangements, which resulted in decisions to formalise the structure through a voluntary amalgamation. Critical to this last decision was the unity and agreement of the political leaders from both councils.

The leadership and organisational change requirements of a resource sharing arrangement required strong skills and commitment from the CEO to make it work. Further research into a wider cross section of shared CEO arrangements could assist in evaluating the success factors for such an arrangement and whether it can be an alternative to amalgamation over the long term.

6.2 Regional Alliances

6.2.1 New England Strategic Alliance of Councils (NSW)

In 2003 the NSW Boundaries Commission recommended the amalgamation of four councils in the New England region of NSW. Despite the recommendation, the Minister for Local Government approved the trial of a strategic alliance as requested by the four councils, to become known as NESAC, the New England Strategic Alliance of Councils. The approval stipulated a 12-month trial period from 2004 and the Alliance was subsequently extended. However, the arrangement broke down in 2009, the reasons for which have been reviewed in detail by the NSW Department of Local Government.

Among the various reasons offered were: the weak motivation of councils entering into such arrangements (probably determined primarily as a means of keeping amalgamation at bay); the lack of consensus on the nature and extent of the reforms being implemented; and the complex and unworkable governance arrangements that were adopted.

Following a further inquiry in 2010, a recommendation for the amalgamation of three of the former NESAC councils was also rejected by the NSW Local Government Minister in favour of another collaborative model. This new approach is linked to planning and reporting reforms and could result in the development of a regional community strategic plan, an option allowed under the *NSW Local Government Act*.

Questions remain as to whether the councils will have learned from the NESAC experience and are willing and able to establish the leadership and the governance structures to make the new arrangement work.

6.2.2 NSW Regional Organisation of Councils

The Hunter Councils group and Riverina East Regional Organisation of Councils (REROC) demonstrate how the ROC model can be used as a framework for very different approaches to the provision of shared services and other cooperative activities between councils on a regional basis.

Hunter Councils has developed a unique, strongly entrepreneurial model that achieves major economies of scale in selected areas of activity by extending its services beyond the region and to non-council customers. REROC has taken a more conventional, though still systematic, approach that is more likely to be adopted by a wider number of ROCs. Both models share some common characteristics, including:

- A strong sense of regional identity and cohesiveness, backed by an integrated regional economy
- Membership comprising a combination of smaller councils which have a strong incentive to obtain the benefits of regional cooperation, and one or two larger councils which provide 'critical mass'
- The funding of a comparatively small, separate secretariat to manage the organisation and develop and administer regional projects
- The adoption of a voluntary, 'opt-in' approach to the participation of councils in projects
- The adoption of clear objectives to reduce the costs of councils and achieve economies of scale and scope for member councils
- Commencement with one or two examples of joint activity that were selected as likely to yield positive outcomes, and their subsequent successful implementation
- Expanding on the success of these activities to develop additional projects with financial benefits or which address clear needs of member councils
- Leveraging their collective 'social capital' to undertake regional advocacy, apply for grant funding on a collective basis and coordinate a wide range of development projects
- The provision of opportunities for councils to engage in the wider strategic regional context.

While these are both successful examples, they also highlight some issues with the ROC model, such as:

- Its dependence on the collective drive and enthusiasm of key participants who have to be able to transcend political differences and parochialism over an extended period of time.
- The process of project selection. To an extent ROCs initially at least choose projects that are most likely to achieve immediate financial outcomes. It is harder to take on projects that are more complex, which may threaten entrenched interests or those involving council core operations that may result in significant reductions in council staff.
- The potential for larger councils to believe that they benefit the least from ROC membership in terms of scale economies, especially when their size does not confer any additional voting rights.

- The lack of a good model for corporate governance. Neither the incorporated association nor the limited company models seem entirely appropriate, and in any case current NSW legislation makes it virtually impossible for a ROC to form a commercial company.
- The potential for tension between elected representatives and general managers (CEOs) who may bring different agendas to the ROC.
- The dependence of the regional advocacy role of ROCs on a high degree of consensus between member councils.
- The broader issue of the relationship to regional governance. Although ROCs could evolve to take on some elements of a regional governance role, this may be resisted by both member councils and state governments, though for differing reasons.

6.3 Regional Service Agencies

6.3.1 Water and Sewerage Services in Tasmania

Prior to 1 July 2009, water and sewerage infrastructure was owned and managed by local councils across Tasmania. Following consultation with local government through the Premier's Local Government Council, the government decided that a local government-owned regional business model was the best solution for Tasmania. The new structure saw the establishment of three new entities to provide bulk water, distribution and retail water and sewerage services on a regional basis.

Cost reductions were not a principal driver of the reforms. However, those interviewed for this case study foresee significant operational efficiencies over time through the sharing and eventual rationalisation of council assets (reticulation and treatment plants) across the regions covered by the new entities, and economies of scope and scale are expected over time as the new authorities adopt a more strategic approach to service delivery, management of assets and funding of infrastructure. Most of the people interviewed agreed there will be state-wide benefits to flow from the reforms and in the case of Central Coast Council, there appears to be acceptance that the short-term disadvantages to that council will be offset by the benefits to the state as a whole.

There is also a view, however, that implementation challenges have been accentuated by rushed implementation, and as the reforms were far from popular in the first place, these challenges have made it even more difficult for critics to accept the changes. While not stated outright, it appears that the rush in this case may have had to do with the timing of the Tasmanian state elections in March 2010 – the government wanted to ensure the new authorities were up and running by mid July 2009 to avoid the reforms becoming an election issue.

Reforms of this scale raise the question of evaluation. A robust and independent evaluation is needed after several years to ensure the changes have returned the benefits envisaged, that the management of the program can be fine-tuned, and that implementation snags can be identified to ensure these can be avoided in the future.

6.4 State-Wide Service Provision

6.4.1 LGASA

Since the early 1980s, the LGASA has established a program of shared service arrangements through a number of separate entities or business units. The primary aim of the association's shared services program is to provide assistance and/or financial benefits to its member councils, but the program also complements the association's other key objectives to "facilitate the continued development and enhancement of local government".

The establishment of the separate entities: Local Government Finance Authority, Local Super, Mutual Liability Scheme, Workers Compensation Scheme, and Local Government Asset Mutual Fund have returned many benefits to South Australian councils – both in financial terms and in building the capacity and development of local government. In particular, the Local Government Finance Authority has led to the establishment of the Local Government Research and Development Scheme, which provides a valuable source of funding and support for building local government capacity and is highly valued by councils.

The establishment of the Local Government Finance Authority was the result of a confluence of a number of important factors, principally an enlightened state government and a well organised local government sector with creative and innovative ideas. Part of its success is due to the realisation that council dividends and other benefits diminish when the sector is fragmented: councils thus appear to understand the benefits of collective bargaining.

In addition to the establishment of the entities, and expanding on its traditional lobbying role, the LGASA has provided a number of other shared services including:

- Local Government Research and Development Scheme
- Electronic Services Program (online services)
- Education and Training Services
- Financial and Asset Management Services
- Development of model documents and procedures
- Community Wastewater Management Schemes.

The LGASA has also supported a shared services arrangement established in the 1970s by the South Australian government as a part of the libraries development program, which undertakes bulk purchasing of library materials and manages an inter-library loans service for council public libraries.

From discussions with those interviewed for this case study, we make the following observations:

- Councils need to be confident that sharing a service offers better value than outsourcing the service, and there are some services (such as payroll and IT) that may be better suited to outsourcing to specialist, external providers. Having said this, there is an opportunity to pursue a combination of both sharing and outsourcing, such as in the examples of the Mutual Liability and Workers Compensation schemes.
- Some councils favour alternative joint procurement initiatives to the state-wide service offered by the LGASA through Local Government Corporate Services. For example, six of the largest metropolitan councils – known as the G6 – also have their own common purchasing arrangements, which have had some success utilising expertise within the participating councils. While all have participated in many of the LGASA's shared services activities, some of the larger councils believe they are achieving better results on their own or with neighbouring councils, where they have greater control over, and confidence in, the specification, tendering process and contract management arrangements.
- Establishing shared services in areas where common standards and policies are required can be difficult and there is a view in some quarters that opportunities have been missed, particularly when politically sensitive issues come into play at the local level. There is also a feeling that some middle to senior level managers in councils create barriers to new arrangements.

- Establishing appropriate management and governance mechanisms can be difficult, as sometimes shared services schemes may struggle to cover overhead costs or lack necessary specialist expertise. The LGASA experienced difficulties in this regard with its former training authority, since re-constituted as a business unit.
- Local government is under pressure – the media remains mistrustful and many critics feel local government does not do a good enough job. This is driving the heightened focus on shared services, as councils want to be able to demonstrate improved outcomes for their communities – perhaps in some instances as an alternative to the perceived threat of further amalgamations.

6.4 Voluntary Amalgamation or Boundary Reform

6.5.1 Break O'Day and Glamorgan-Spring Bay (Tasmania)

In 2009 the two councils requested the Local Government Board review a proposed voluntary merger. In common with other small rural councils, they were facing a number of financial and service delivery pressures. At the time the state government was also offering support for those Tasmanian councils proposing voluntary mergers.

The Board reviewed the proposal and determined that it would not proceed, pending a broader review of smaller councils in the state. The Board made it clear that the merits of alternative options needed to be considered: to deal with this proposal in isolation would be to adopt an *ad hoc* process that may create a situation where some struggling councils could be excluded from voluntary merger negotiations.

While small rural councils such as Break O'Day and Glamorgan-Spring Bay have been willing to explore potential mergers, solid evidence is now required by the Tasmanian government that consultation about the proposal has been undertaken with the state government and the local community, and that the proposal is likely to result in greater financial sustainability and improved services to the affected communities.

However, this evidence-based, more global approach required by the state has left the two councils involved to continue their present arrangements when they have made their concerns about sustainability public, and have expended some effort in securing local support and, therefore, have raised local expectations.

6.5.2 City of Onkaparinga (SA)

The City of Onkaparinga was formed during the mid-1990s round of amalgamations in South Australia in the 1990s, involving a merger of Happy Valley and Noarlunga councils along with the major part of Willunga council. This created the largest council in South Australia, by population, with over 145,000 residents. The current population is around 160,000.

The amalgamation seems to have experienced few of the problems occurring elsewhere, although it has resulted in only minor cost savings (even less when the expenses of the process appear not to have been adequately quantified). Its success appears to have been based on the following factors:

- A recognition that while the area concerned was quite diverse there were overlapping communities of interest
- While the amalgamation process was driven by the state government, the ability of councils to discuss and develop their own amalgamation proposals gave them a degree of ownership of the process

- The flexibility that the new council had in relation to staff reallocations and redundancies: while there is a strong argument both on moral and pragmatic grounds for the staff of amalgamating councils to be offered protection in the merger process, it can also be argued that if they are taken too far these protections will make it difficult to restructure the council and realise some of the benefits of amalgamation
- The maintenance of a high level of representation relative to some other amalgamations through the retention of a comparatively large number of councillors
- The development of the independent community forums to provide an interface between the council and the community, particularly in areas where the level of councillor representation had changed significantly
- The decision by the amalgamated council to create a 'new' organisation, starting with the appointment of a new CEO who did not come from any of the amalgamating councils.

The development of strategic capacity appears to have been a much more significant outcome than any cost saving. In particular, a formal strategic planning process was developed to a level of sophistication not achieved by the merger partners previously.

6.5.3 Geraldton-Greenough (WA)

Prior to amalgamation of the two councils this was a classic 'doughnut' situation with the Shire of Greenough surrounding the city of Geraldton and absorbing suburban growth. Whilst both councils were operating satisfactorily, pressure for change had been building over a long period. Previous unsuccessful moves for amalgamation or boundary change were made in 1998 and 2002, and the former Geraldton-Greenough Regional Council, which handled waste management, had offered some experience of collaboration.

The amalgamation appears to have been a success in achieving the anticipated benefits:

- Additional highly skilled staff have been attracted or retained
- The new council has certainly offered a stronger regional voice
- There has been more emphasis on economic development
- Strategic planning has improved.

On the whole, there has been little adverse reaction from the community, but there is some lingering concern about loss of Shire identity and a perception – especially in parts of the business community – that the new council has yet to deliver sufficient tangible outcomes.

The case revealed a number of lessons for similar types of voluntary amalgamations:

- The fundamental importance of political leadership, good faith and a focus on resolving issues
- A longer lead-time before amalgamation might have helped, but there was a need to 'seize the day' once political consensus had been achieved
- A newly amalgamated council needs to get 'runs on the board' quickly to demonstrate its worth and to maintain community confidence in the change process
- Amalgamation concentrates a lot of changes that were probably needed anyway into a tight timeframe, e.g. introduction new IT and accounting systems
- It takes some time for both senior staff and councillors to learn how to run a much bigger organisation with greatly enhanced capacity that is also working for a 'new community', and this shift in scale, capacity and focus also creates a need to bring in new skills.

Whilst no formal evaluation has been undertaken, there is little doubt that the chief gain of the amalgamation has been increased 'strategic capacity': a higher profile, more capable council better placed to work for its community in terms of addressing new agendas and 'big picture' issues. In particular, the new council believes it is taken far more seriously as a partner by state and federal governments. This perceived success has been a key factor in a new proposal for a merger with Mullewa Shire, which is to be based on a decentralised 'place management' model. Both the approach taken in creating Geraldton-Greenough and this model for adding a much smaller rural shire appear replicable in similar situations elsewhere.

The case study tends to confirm findings from the literature and recent Australian experience in general that economies of scale, cost savings and efficiency gains were not key factors, and that benefits were tempered by significant transition costs and disruption – but the long-run gains are considered to outweigh those disadvantages. There are no substantial concerns about loss of local democracy/representation.

6.5.4 City of Mt Gambier and District Council of Grant (SA)

This approach to consolidation involved voluntary collaboration between councils which agreed to readjust their boundaries to accommodate significant changes that had occurred in their council areas. The boundary adjustment was gazetted in June 2010 and represented the largest adjustment undertaken by a South Australian council since 1996-97. It added 25% in area to Mt Gambier City. Neither council was interested in developing the collaboration further to embrace formal consolidation, although they are exploring the possibilities of stronger regional arrangements.

From the case, we observed the following lessons:

- By taking a lead in initiating the structural reform, rather than leaving it to other key local and state government bodies, the District Council was able to negotiate an outcome that best suited its long term objectives.
- The willingness of both councils to work as a genuine partnership was a factor in the success of the boundary reform and in shared service arrangements.
- The councils are now advocating a better-resourced regional organisation of councils to facilitate greater efficiencies and improved service delivery to their communities.

6.4 Forced Amalgamation

6.6.1 Central Highlands and Sunshine Coast, Queensland

Central Highlands and Sunshine Coast Councils were formed as a result of a major program of forced amalgamations announced by the Queensland government in 2007 and implemented in 2008. The Queensland amalgamations have to be seen in the context of the adoption by the state government of an increasingly regionalised approach to planning over the past two decades. They emerged from concerns about the long term financial viability and capacity of some smaller councils, as well as the need for a more strategic regional approach to deal with growth issues facing the state, including mining development and urban sprawl spreading across council areas in South East Queensland.

What began as a voluntary planning process led by the local government association ('size, Shape and Sustainability' review) morphed into appointment by the Queensland government of the Local Government Reform Commission (LGRC) to propose 'structural changes to ensure strong, effective and financially viable councils'. The Commission provided a short period for public responses but rejected all the options proposed as alternatives to major amalgamations.

The Central Highlands and Sunshine Coast amalgamations share broadly similar outcomes such as:

- A strong basis for future improvements in strategic capability, efficiency and service delivery
- A foundation for a more strategic and integrated approach to planning, development and environmental management
- Improved the linkage between local planning and the state government's regional planning and service delivery framework
- Elected representatives adopting a more strategic and less parochial approach.

However, the amalgamations were not without some problems:

- Amalgamating councils incurred millions of dollars in costs without any compensation, thus cancelling out any efficiency gains at least for several years
- Reduced levels of democratic representation
- Little real community input to the amalgamation decisions
- The short timeframe forced councils to prioritise the development of new structures and to defer attempts to achieve the improvements in strategic capability
- Undermining one of the rationales for larger councils by removing aspects of water management from the direct control of South East Queensland councils and removing a major urban development project from the control of the Sunshine Coast Regional Council
- Exposure of councillors and mayors elected to form the first post-amalgamation councils to continued opposition to amalgamation (Sunshine Coast), and the consequences of unpopular decisions such as rates equalisation (Central Highlands)
- An employment guarantee that may have been too sweeping in its scope and which in some cases has only deferred the inevitable rationalisation of council staff
- Amalgamations that in some cases (e.g. Sunshine Coast) may not have reflected the best option available in terms of communities of interest, and which may yet result in diseconomies of scale with the potential for de-amalgamation in the future.

The Queensland process highlighted strategic capacity outcomes rather than economic or efficiency gains, and seeks to integrate local government more within a regional planning and service delivery framework. However, alternatives to forced amalgamations that may have achieved similar objectives were never fully explored, nor was there any real negotiation of key process issues such as which councils got amalgamated or the timeframe.

Sweeping amalgamations of this nature involve massive cultural and other changes, such as creating a council on a vastly different scale (Central Highlands), or merging councils with very different cultures (Sunshine Coast). Recognition needs to be given to the pressures that are placed on merging councils when time-frames and resourcing do not take into account the broader monetary costs and dislocation involved.

6.4 De-amalgamation

6.7.1 Delatite (Victoria)

This case study was a desktop analysis of a rare – if not unique – example of de-amalgamation in Australia. Following the Kennett government's amalgamations of local government in the 1990s, sections of the community in part of Delatite initiated a campaign to have the amalgamation overturned. This case traces the main issues raised in that campaign, which was ultimately successful.

Some the more relevant observations are outlined below:

- The most important and probably most unsurprising conclusion is that hasty and poorly planned amalgamations that do not involve adequate consultation will result in poor outcomes and disaffected communities. This situation is exacerbated when amalgamations are pursued primarily on cost saving grounds and without regard to strategic outcomes.
- However, this is not an argument against amalgamations *per se*: rather, in this case a more strategic approach probably would have highlighted the lack of a substantial rationale for merging such disparate and far-flung communities as Benalla and Mansfield (the major centres in the merged council).
- Well-organised grassroots campaigns can achieve significant outcomes, especially if they can impact on strategic decisions early in the political process on an issue such as amalgamation. The initiative of the Mansfield residents group to put de-amalgamation on the agenda before the wider communities were engaged in the discussion helped to set the framework and parameters for the subsequent debates.
- The success of this de-amalgamation campaign echoes the attempts of residents' groups in small, relatively distinct and cohesive urban communities comprising well-educated and affluent residents (for example, Pittwater and Hunters Hill in NSW, Walkerville in South Australia or Noosa in Queensland) to seek or retain their own councils and to staunchly oppose amalgamation. In fact, the Delatite de-amalgamation has been used by some of these groups as a model for their own campaigns.
- Notwithstanding the success of the Mansfield-based campaign, there is a lingering question mark over the extent to which Mansfield residents – let alone the whole Delatite community – supported de-amalgamation and the attendant costs. An alternative approach to the question may have framed the community survey differently to achieve a more satisfactory outcome.
- There are obvious lessons for governments that community consultation has to be undertaken comprehensively and seriously when major structural changes to local government such as amalgamations (or de-amalgamations) are contemplated. These processes need to be able to balance out the strongly articulated views of specific interest groups against those who may be less articulate and not as well organised.



7. PRACTITIONER INTERVIEWS

As noted in section 1.3.3, we identified eight people of standing in the local government sector who have considerable experience with different forms of consolidation. These eight interviewees included three who had been or are currently employed as CEOs/General Managers; three experienced elected councillors; and two officers of local government associations. Their combined experience covered all Australian states and New Zealand.

The following summary represents a distillation of key arguments presented during what became quite extensive interviews. Direct quotations have been used in many places, so that the reader can get some insight into the passion, experience and thoughtfulness that the interviewees brought to our discussions. We have tried to ensure the anonymity of the interviewees by not referring to their titles or to their specific positions.

7.1 Overview

There was unanimous agreement from interviewees that some approach to structural and constitutional reform through consolidation was required in their jurisdictions. They identified a number of drivers for this such as financial stress in local government; the need to present a stronger, more united front to other spheres of government; the potential for organisational capacity building; the financial advantages of resource sharing and shared services; an enhanced capacity to manage assets especially infrastructure; and the need for local government to be able to operate in a broader, more outward manner.

None argued that consolidation would yield economies of scale although the rate reductions mandated in the Victorian amalgamations of the 1990s were used as an example of the potential for generating such economies. However, this proposition was tempered with the comment that one of the unacknowledged costs of the Victorian approach to cost saving through amalgamation was the failure of local government to invest in infrastructure and, perhaps, in professional recruitment and development during the Kennett reform period. In short, the proposition was put that cost saving through cutting expenditure is not an intrinsic part of consolidation through municipal amalgamation.

The primary differences in opinion between interviewees related more to the form of consolidation that they saw as needed. It was this which wedged the arguments between elected members and officials; the former being more concerned about finding consolidation mechanisms other than amalgamation especially through resource sharing; the latter not confident that voluntary arrangements would result in sufficient change. These differences probably reflect a case of 'where you sit is where you stand', with the various roles determining how the occupants see the *primary* focus of the local government sector, either as efficient service delivery or as community representation. This point is important given that few argued that this was an either/or situation, rather that both roles were significant for local government but that it was a matter of primary focus.

All were agreed that state governments needed to offer stronger leadership rather than assume a directing role or, even, an ad hoc one. Few plaudits were given by any of the interviewees to any state governments for their previous amalgamation programs; criticisms abound that programs were either too ideologically driven (Victoria); that insufficient attention had been paid to examining boundaries (South Australia); that state governments had been impatient and had undertaken inadequate consultation (especially Queensland and the proposed second phase Tasmanian reforms in the late 1990s); and that state governments had provided inadequate leadership (especially Western Australia and NSW). Consolidation process issues are discussed in more detail at the end of this summary.

The material in this section is grouped under the four main headings used for the project: efficiency, local democracy, strategic capacity and service delivery.

7.2 Efficiency

Very few interviewees gave serious credence to economies of scale accruing from amalgamation. In Victoria, economies were noted in terms of reducing the number of middle managers:

to achieve our agreed levels of rate cuts we used to think we took advantages of economies of scale by the amalgamation. So having been stuck together – two or three councils stuck together – you had three times as many middle managers as you needed or you paid them out.

How much of this related to amalgamation and how much to the imposition of compulsory competitive tendering was difficult to assess: as one respondent commented, ‘what I sensed was that feather bedding was being addressed through CCT because we had downsized before going out to tender’.

Most of those in favour of amalgamation based their arguments on the parlous state of finances of many small councils. For example:

the SSS report that WALGA did, illustrated that something like 80 per cent of the councils were not sustainable and the western suburbs in Western Australia have got a very large number of councils in quite a compact geographic area with low populations. The other major area for reform is in the wheat belt of Western Australia where there's 44 local authorities, with very low and declining populations.

The benefits noted also included the opportunity for councils in weaker financial positions to benefit from collective activity: a South Australian respondent commented that ‘the smallest of councils was pretty well broke, they were just about bankrupt, they couldn’t afford to buy any more infrastructure’. S/he continued:

there is a lot of merit in further consolidation in South Australia. I did a rough comparison recently, [with] the 68 councils in South Australia. Our capital works program is around about \$50 million at the moment and we’ve ramped it up in the past few years, which, you know, is pretty taxing in terms of capacity to deliver. There’s a lot of projects in that as you can imagine.

Another commented that:

it’s pretty hard to get the sector lined up behind big things at the moment, because if they’re really small councils the stuff we do is not even on their agenda, they’re not thinking about it, because there’s no capacity for it. I think there’s a lot of room for more consolidation. My preference is mergers, I’m not a huge fan of doing stuff with the sharing of services and so on.

Having said that, we still get involved in a shared service with purchasing, it doesn't stop us because we're a bit bigger.

And another:

I don't think it's a population thing, based on what I'm saying about scale, I think it's about the budget. The size of the budget is as important as the number of people and the geographical area and if you're not having a budget up towards \$150 million, I think you're always going to struggle to take on bigger things.

Some financial advantages from amalgamation were noted: 'I think the rates are probably lower now than if the merger hadn't taken place. I can't prove that, but I think that would be the case'.

However, the primary argument related to the budget size and capacity of small councils:

there are some councils that will never be big enough. You take away all the management and leadership issues, and if you get down to tin tacks with the revenue base for the asset base, there are some that will just forever struggle. They're just not big enough.

Even one of those opposed to amalgamation noted that there could be some financial advantages:

you are able to provide your services over a larger area, a larger group of people, and so you do get some efficiencies through that, but at the same time the larger the organisation, the more remote the CEO is from the day-to-day stuff, so I think there's swings and roundabouts with that one.

One respondent doubted the financial benefits from amalgamation: 'why do you amalgamate? You amalgamate for financial reasons. Do you get a financial benefit? Dollery has proved time and again there is no financial benefit.' In any event, the respondent made the point that the condition of local government finances in the state were largely the result of debt brought about:

by the disconnect between state development and local capacity to match it. For example, a long period of hydro industrialisation required that roads be developed and that they be serviced. There was never enough money put into this. The local councils were meant to pay for it, but they never had sufficient funds to pay for it so they got into debt doing it.

At the same time, the cost of amalgamation was raised as an issue. The Victorian experience rarely factored the costs to organisations from the dislocations of the combined amalgamations, installation of commissioners and the application of compulsory competitive tendering. A Queensland respondent argued that costs were significant in actual dollar terms: 'I think \$27 million. It was an enormous amount of money'; and in terms of dislocation and in establishing new ways of operating especially in securing 'buy-in' from staff: 'we're still trying to develop a culture in the organisation, and because there still is a certain amount of staff resistance, and that's three and a half years on'. Another respondent made the point that 'we had to shoulder the costs of the change'.

A Queensland respondent again:

It has been a fairly heavy strain for a lot of our workforce to live under, and there was a fair bit of covert resistance to change in the early days. I made a prediction that it would take six to eight years to change the culture of the organisation and I still maintain that'll be the case.

This interviewee argues that none of the anticipated advantages of amalgamation have been evident, cost reductions, greater efficiency, strategic capacity, democratic representation and service

delivery: 'None of those have shown up'. In fact the concurrent stripping of the amalgamated councils of responsibility for water supply and sewerage 'has reduced our ability to find alternative forms of income other than general rates'.

Even though in favour of amalgamation, another respondent acknowledged the costs of dislocation with the process:

I faced a very strong resistance when I went into the organisation. I did change all but one of the people that were operating at the senior level over a fairly quick period. That was necessary to ensure that the organisations came together quickly. I had to face down some pretty nasty situations through that.

Some respondents saw amalgamation as an efficiency issue when dealing with other spheres of government:

there's very little that's been said about the effectiveness and efficiency gains that would come from state and federal governments by being able to deal with consolidated local governments. I think that's something that doesn't get looked at. Well take the wheat belt, which has got 44 local authorities in it, which is reflected in the Wheat Belt Regional Development Commission for the State Government. If you're running a regional program in the wheat belt you have to consult with 44 local authorities. You have to deal with 44 different administrations. You have to deal with 44 shire presidents, CEOs and communities. If you're running education, health, law and order, planning, environment, whatever function the state government's currently running, the way in which you can deliver those programs and deal effectively with that sphere of government, local government, is I think significantly impeded by the sheer number of local authorities that are there.

Another commented that 'there's a whole range of examples that you could offer up. I think there's an underestimation of the efficiency gains and effectiveness gains that could come from having a consolidated local government arena'.

The most significant disagreement between interviewees related to the choice of consolidation approach. Some argued that a voluntary approach was a recipe for further and unnecessary delay:

If you look at what's happening in Western Australia you could hardly say that there's been precipitate action. We've spent the last three years talking about this voluntary process. WALGA was talking about it for the three years prior to that. If you go back and add up every report and every royal commission that looked at this since the 1950s you'll find that there's a very consistent thread that says the consolidation in local government in Western Australia is a desirable thing. The voluntary process has really been I think stopped by those that don't want to amalgamate stopping those that do.

This respondent continued:

all of the alternatives to amalgamation are basically diversionary from the political interests of those that don't want it to occur. All of the efficiencies that you allegedly get through regional sharing and voluntary arrangements could all certainly be got through a merged entity, a consolidated entity. You wouldn't have all of the to-ing and fro-ing and the entrenched and still ongoing of difference that occur in these voluntary and regional and cooperative sharing arrangements, which create another level of discussion and administrative attention that's required to get them. In most of those instances you end up unfortunately with the lowest common denominator about what is it that can be agreed.

S/he concluded that: ‘you don't necessarily get the most efficient or effective outcome from voluntary amalgamations. You only get the outcome that can be agreed and negotiated, which is not necessarily the optimal one’.

Another respondent doubted the gains from shared services as an alternative to amalgamation:

the state government here has been pursuing shared services, and massively overestimated the savings, and underestimated the cost of implementation, and haven't really delivered on it at this stage. A shared service model is not an alternative to larger council units. The idea of resource sharing to deliver on services is a very flawed model. I think there are too many politics that get in the way of actually allowing these things to work. There's a lot of waste in those models compared to delivering it all from the one organisation.

Finally, an elected member praised the use of shared services because it enabled councils to undertake services which otherwise would not be feasible without impacting too much on the deep-seated sense of local community that existed in the region. This theme was further developed by another respondent who argued that there were economies of scale but also of scope:

Traditionally councils in our region have had quite a parochial mentality but there is growing acceptance, indeed enthusiasm, for shared services in a range of areas such as IT, HR, insurance, waste management, emergency response as well as for research, such as into biofuels, which benefit councils. The financial benefits are the most obvious, but there are also social and environmental benefits too. An example of social benefit, the MyRoadsInfo website provides all communities with road closure information across the region – especially important in flood times.

7.2 Local Democracy

It is worth repeating that few of the officials gave prominence to issues relating to local democratic capacity. By contrast one elected member made the point that in the state ‘people still turn to little councils to find the help that they need to keep their sense of community together’. More broadly, it was acknowledged that ‘the small regional areas of [state] have enormously strong identities’, which would be threatened by regional mergers.

The respondent noted that these councils are finding more ways of working better together and cited several examples to support this claim, arguing that the state government timeframe is typically too fast for local communities to adjust, and given that many of the problems are the result of a ‘disconnect between state and local government’ the state needs to exercise more patience to enable local government to adapt to changes. S/he warned that it was important for state government to stop ‘the pernicious practice of centralisation’. ‘When asked, the people involved, general managers and local government leaders, the mayors, was that our community identity is far more important than amalgamation’.

However, another elected member commented that after amalgamation: ‘it's a pretty large geographic area as well, and there are different communities. [But] I don't think we've gone backwards in terms of local democracy at all.’

While few comments were made about the loss of local democratic capacity, the issue of advocacy was raised by a number of respondents. According to one respondent:

one of the things that I believe they've found out is that they've created some monsters here in South-East Queensland, because you've got four of the largest local authorities by population in the country right here in the south-east corner. It's started to put some logic into the planning

process, and the government realised they created a monster. We had power that they didn't think we'd ever be able to gain.

Another commented that:

if you wanted to take it into another dimension as an example, if you consolidated say all four of the Pilbara councils, which obviously have a lot of distance factors involved with it but if you were say the Mayor of the Pilbara I suspect you'd get a greater level of standing both with the state government and indeed with the federal government than a disparate four that you have at the moment.

Another argued that amalgamations have created three mini major governments in the state that will stand up and use whatever political muscle they have to benefit their members. Several examples were given to illustrate this point.

7.2 Strategic Capacity

The strongest argument for all forms of consolidation related to the enhanced capacity of the joint councils to discharge their roles. This underlines the argument for economies of scope, discussed elsewhere in this report. Respondents made the following comments that illustrate the capacity advantages that accrue to the various forms of consolidation that they had experienced. What is not clear, however, is the relative contributions of these forms of consolidation to the capacity enhancement that they acknowledge:

'The efficiency stuff I think is swings and roundabouts. It is capacity in service and project delivery that I think is the big winner.'

'[Sharing services] allowed us to purchase waste management equipment that we would not have been able to do as separate councils'.

'The focus on longer term strategy; asset management - all this was incremental and evolutionary, but it was the initial jolt of the structural change that set that in train'.

'I think you can actually have a more professional approach to things like market research and so on, through a larger budget. You've just got more resources to do those things'.

'The biggest benefit I think is scale, and therefore your capacity to actually deliver on your projects and probably a broader range of services as well. You do end up with economies of scale, and an ability to bulk things up so that you're actually dealing with much bigger projects than smaller councils would even contemplate'.

'My biggest reason for supporting that direction of consolidation is to increase the capability and effectiveness of the local government system in those areas rather than looking at cost savings'.

'We've now probably got a better sense of our assets than we've ever had. I used to look at a cash flow statement and we said we'd spend \$80 million this year and we spent \$80 million. We're good lads. Whereas after that I looked at a balance sheet and said have we added value to this balance sheet or have we stripped it?'

'My own council I've pushed for shared services rather than structural reform, which is a form of structural reform, rather than massive institutional change'.

'We didn't set out to measure [savings], but I think that it was reasonably significant. That was returned to the ratepayers through improved planning and improved levels of service', rather than in reduced rating as was the Victorian approach in the 1990s.

‘I primarily see it as a capacity advantage. I've never been a big supporter of the economies of scale argument. I don't think that will you get cheaper rates out of this as the rate bases in those areas are very tenuous’.

Several have argued that amalgamation has enabled councils to do things that otherwise were not possible:

for example, most of them don't have GIS. Most of them don't have a town planner that's available on staff; they have to contract them. They don't have sophisticated asset management plan. They'd be contracting some of their civil engineering. They don't have access to all of the plant and equipment that they necessarily would need.

Another commented that amalgamation has lead to ‘the better planning of the asset base and the road structure and the delivery of services and the professionalisation of those local authorities a smaller number of local authorities would be able to command’.

An elected member saw advantages in regional arrangements being able to develop stronger advocacy for their areas because it enabled them to lift their focus from operational level matters to more strategic matters. The example cited was the Council of Mayors in South East Queensland, which is seen to be playing a more strategic role in advocacy for the region:

we raised the bar about the intelligence and understanding of the individual boofhead Mayor who was there. We were getting mayors coming in and saying we need to write to the minister to get him to change the code for fencing on the boundaries of the state forest, because someone had the cattle run into the state forest. That was the level we were operating, we don't get that any more.

7.3 Service Delivery

The issue of capacity to deliver services also relates to the notion of capacity enhancement. It is clear that consolidation and the process of change have contributed to more careful introspection about service levels and arrangements. In particular, the Victorian experience of amalgamation, coupled with CCT, forced councils to carefully analyse and specify their service delivery arrangements. For some, it offered a new opportunity to reconsider their delivery mechanisms, especially the establishment of ‘business enterprises’.

There was general agreement that service standards have been lifted with consolidation:

think the services have all ramped up for everybody. It's certainly been a big improvement in some areas to bring them from really poor conditions in terms of infrastructure, up to a much better standard.

For others:

we didn't do a lot of changes to service levels and we didn't rationalise much in terms of service. In some places if the amalgamation came we'd be able to convert ten baby centres into six, but essentially not change the basic service. Library services no. Swimming pools; some people were able to make some rationalisation around swimming pools. I didn't sense a lot of that.

For one respondent, amalgamation has not addressed the fundamental problems relating to financial sustainability:

for some councils, amalgamation has been very good. For others of them it has not actually addressed the structural problems that they have that are distance and time of travel because of the state of the roads. The planner still had to travel an hour and a half to get from one point to another because of the nature of the roads in the area and the way the place had been developed. That hadn't changed.

This respondent continued that some of the former problems still exist in the amalgamated entities: 'the lack of professional staff is a constant problem. The ability to pay for people and the ability to have them properly trained.'

7.4 Process of Consolidation

While there were disagreements between respondents concerning the efficacy of particular consolidation arrangements, all were agreed that state governments' role in these matters had not always been constructive. For some, state governments were too interventionist, while for others they were too 'ad hoc' in their approach.

One respondent was critical of the Kennett approach to reform based on a particular ideology that private provision, through markets, was inherently superior to public. It led some councils to make poor decisions. For example, 'some councils in Victoria sold every item of plant after they contracted out all the public works to find no tender from the same contractor a year later and had to go and buy - they made a lot of mistakes because they believed the ideology'.

There is a clear view that 'structural reform will have to be led from the top. It won't happen on a voluntary basis. There may be mechanisms for greater involvement in shaping that up than was used in New Zealand, but at the end of the day it will have to be driven from the state government level'.

Advice was given from a number of interviewees that the issue requires coordinated efforts between councils and the state government: 'it's about shared problem solving'; and 'as in the New Zealand amalgamations, there needs to be expertise available to assist but better than ad hoc arrangements'.

The notion of working in harness with local government was expressed by several respondents. One respondent commented on the top down approaches s/he had experienced in one state:

you've got a local government department here that sort of breathes down everybody's neck for compliance - lots of boxes to be ticked. The approach that evolved, supporting the stronger councils and larger councils in New Zealand, was a much more empowering approach.

The interviewees were also concerned that sufficient support and lead times be given to councils undertaking consolidation to give individual councils the opportunity to better prepare their new organisations. One successful amalgamation took the approach of establishing 'project teams that were operating before the merger.' Others stressed the importance of establishing a new entity rather than basing the new organisation on one of its antecedents:

I said, let's create our own, let's drop all this stuff, what each of you know about, let's create something for the ground up and do it better that way, which we did'.

Another stressed that 'it's not one of the old councils rebadged, but just a little bit bigger. It's a new start; it's a line in the sand. We purposefully set out to be a new model of local government'.

One respondent discussed in some detail a proposition that state governments establish a permanent boundaries commission, at arm's length from state and local government, based on the electoral redistribution model. Such a commission would be able to examine boundaries and suggest

boundary reform as a significant part of structural reform, which would also include the possibility of recommending amalgamation or other forms of consolidation. Its permanent structure would enable periodic review of all councils in the state with a view to assessing financial sustainability, adapting to shifting and declining populations, and re-examining the current boundary arrangements. S/he concluded that:

there would be a range of advantages for that. Firstly you would take it outside of the political. You'd actually be saying well this is all too tough for the politicians to make a decision about. We'll put it in the hands of people that know something about it, they're experts, but they're objective. When the decision's actually made it's made in a way which is driven by this non-political process.



INVITATION TO COMMENT

This report has attempted a fresh approach to addressing the issue of consolidation in local government through a review of the available local and international literature, a series of ‘on ground’ case studies across Australian and New Zealand, and the perspectives of key opinion makers who have recent experience in consolidation. The detailed literature review and the full text of the case studies are presented in Volume 2.

However, whilst a substantial body of new material has been assembled, and some previous studies re-examined, the authors acknowledge that the report is by no means the final word on the subject.

Local government researchers and practitioners are therefore encouraged and requested to review our findings (both the overview on pages 7-13 and also the more detailed findings in later chapters of Volume 1 and in Volume 2), and to contribute their views and experiences on the reform options available to the sector.

Feedback on the report, and further enquiries, can be directed to:

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ABOUT ACELG

ACELG is a unique consortium of universities and professional bodies that have a strong commitment to the advancement of local government. The consortium is led by the University of Technology Sydney's Centre for Local Government, and includes the University of Canberra, the Australia and New Zealand School of Government, Local Government Managers Australia and the Institute of Public Works Engineering Australia. In addition, the Centre works with program partners to provide support in specialist areas and extend the Centre's national reach. These include Charles Darwin University and Edith Cowan University.

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