

COMPULSION VERSUS A COLLABORATIVE REGIONAL APPROACH

BY PROFESSOR BRIAN DOLLERY

KEY EXTRACTS FROM DRAFT REPORT – APRIL 2015

Page No.	Chapter	Quote
26	<p>Chapter 2</p> <p>Empirical Evidence on Municipal Mergers</p>	<p>The total number of local authorities in Australia has decreased from 1,067 to 556 (a fall of 48 per cent) between 1910 and 2012.</p> <p>The only exception to this trend occurred in the NT, where the number of councils substantially increased from 22 in 1990 to 63 in 1995.</p> <p>The timing of municipal merger programs has been uneven across state and territory jurisdictions. For instance, major mergers occurred in NSW in the period between 1967 and 1982 (a reduction from 224 to 175 councils).</p> <p>It should be stressed that these episodes of compulsory consolidation have occurred despite long term population growth in Australia, where average council size – defined as the number of residents per council – has increased markedly. For example, Table 2.2 shows that the average council size for each state and territory jurisdiction (excluding the ACT which has no local government system) has increased between 1910 and 2012. Perhaps one of the most striking features of Table 2.2 is that the average size of councils nationally has grown from 4,147 persons per council to 40,118 persons per council between 1910 and 2012.</p>
29		<p>How does the average size of Australian councils compare with other advanced countries? Of the 18 countries listed in Table 2.3, the Britain has the largest councils with an average of 143,000 persons per council, whereas France has the smallest councils with an average of 1,500 persons per council. Relative to other OECD nations, Australia has the fourth largest councils with an average of 40,118 persons per council. Put differently, Australian councils are already large by the standards of other advanced countries.</p>

31		<p>In general, American researchers have found that mergers have not met expectations in terms of efficiency gains and cost savings.</p> <p>These general conclusions have been echoed in the Canadian empirical literature. For instance, in her analysis of Ottawa amalgamations, Reese (2004) noted that remuneration levels increased in the post- merger period, resulting in a net rise in overall council expenditure.</p>
32		<p>Compulsory merger programs have not only failed as a 'silver bullet' for solving systemic financial and other problems in Australian local government, but have also not provided a coordinated regional dimension to local service provision.</p>
36-37		<p>The Hawker Report (2003, p. 90) put forward two main recommendations:</p> <p>The Commonwealth Grants Commission, in consultation with the LGGCs [Local Government Grants Commissions] in each State, assess the efficiencies of amalgamations or regional cooperation of local government, and use available mechanisms to adjust FAGs [Financial Assistance Grants] for the benefit of the sector at large'. To promote mergers, 'councils should not be financially penalized through a net loss of FAGs for the benefit of the sector at large'.</p> <p>Recommendation 14 held that the Commonwealth 'continue to develop partnership arrangements with local government on the delivery of Federal programs and service delivery; and as appropriate, engage established regional organizations of councils, or similar regional bodies, which have demonstrated capacity, in regional planning and service delivery'.</p>
38		<p>In sum, the FSRB (2005, p. 85) concluded that 'amalgamation brings with it considerable costs and often exaggerated benefits'. Alternative models of council cooperation should thus be pursued instead, since there are 'many intermediate forms of cooperation/integration among councils, with amalgamation being the most extreme (and confronting) form of integration'. The FSRB (2005, p. 85) then considered the most promising alternative options and found that numerous 'voluntary arrangements' in shared</p>

<p>39</p>		<p>services and joint enterprise had proved successful in the South Australia.</p> <p>Achieving increased economies of scale and greater efficiencies through forcible amalgamation seems questionable and generally not desirable from a local government or community perspective’.</p>
<p>41</p>		<p>Structural reform through amalgamations is necessary in some instances; each potential amalgamation needs to be assessed carefully to avoid the risk of simply creating large inefficient councils’.</p> <p>In its formal recommendations, PWC (2006, p. 149) held that ‘efficiency, effectiveness and scale’ could be enhanced by means of regional service provision, shared service arrangements, outsourcing, state-wide purchasing initiatives, and similar initiatives, rather than through compulsory council amalgamation.</p>

Page No.	Chapter	Quote
54-55	<p>Chapter 3</p> <p>Empirical Assessment of the 2000/2004 NSW Merger Program and the 2008 Queensland and Merger Program</p>	<p>This comparison clearly demonstrates that the FSR assigned to the two cohorts by TCorp (2013) do not suggest any material difference in performance between the ten general purpose councils which experienced forced amalgamation and the rest of the NSW councils. In fact, the ten general purpose councils under consideration had a higher proportion of sub-standard performance (i.e. 'very weak')</p>
59-60		<p>Drew, Kortt and Dollery (2015) interrogated the financial data of Queensland councils pre- and post-amalgamation to determine whether the radical merger program in fact reaped the economies of scale promised by the LGRC. Table 3.5 details the measures of central tendency for the variables used in the regression analysis. They concluded that the municipal merger program actually resulted in a greater proportion of councils exhibiting diseconomies of scale arising from amalgamations (see Table 3.6 empirical results) which created entities which were simply too large to be run efficiently:</p>
69		<p>In essence, forced amalgamation has significantly diminished the performance of the most efficient councils, but has improved the performance of the worst performers. However, we need to be mindful that the typical performance - as measured by either the mean or median – of amalgamated councils is far lower than that of their Non-Amalgamated peers.</p>
71		<p>However, de-amalgamation is not inexpensive. In addition to bearing the original amalgamation costs, where the mean cost for Queensland was \$8.108 million, the break-away councils were also required to wear the cost involved in returning to their former stand-alone state (Drew and Dollery 2014). For example, in the case of Noosa Council the Queensland Treasury Corporation estimated this cost to be \$13.6 million, although it should be noted that the residual council (Sunshine Coast Regional Council) estimated the cost at just over \$23 million (Drew and Dollery 2014).</p>

<p>72</p>		<p>Amalgamation proposals must be based on rigorous empirical analysis rather than preconceived ideological presumptions concerning council size and council performance.</p> <p>Policymakers must appreciate that optimal economies of scale are often unattainable and may only exist for a limited range of functional expenditure outlays (which can in any event be captured more effectively through shared service arrangements).</p> <p>Ill-conceived council mergers can create councils which are too large and thus operate with diseconomies of scale, as in Queensland.</p>
<p>73</p>		<p>Well-developed empirical techniques exist to allow policymakers to determine whether proposed merged councils will operate efficiently.</p> <p>The financial sustainability assessments undertaken by the Queensland LGRC were seriously flawed.</p> <p>It is thus a mistake to use the same flawed LGRC financial sustainability approach to inform the New South Wales Fit for the Future Program on council viability.</p> <p>Both the Independent Panel and the New South Wales Fit for the Future Program erred in ignoring the weight scholarly evidence on the efficacy of municipal amalgamation as a reform instrument.</p> <p>As Queensland mergers have illustrated, poorly designed local government amalgamation could result in subsequent de-amalgamation.</p> <p>Local communities should be given a political voice in decisions regarding municipal boundary changes.</p> <p>Amalgamating heterogeneous communities results in a loss of economic welfare and encourages de-amalgamation campaigns.</p> <p>The real cost of misconceived public policy on local government created in haste and without regard to empirical evidence is borne by the community.</p>

Page No.	Chapter	Quote																					
104	<p>Chapter 5</p> <p>Financial Analysis of Proposed Mergers</p>	<p>Depending on the approach taken to redistribute the land based taxation burden following the proposed amalgamation, there will certainly be winners and losers. On the basis of this analysis, it would appear that the residents of Hunters Hill and Mosman will likely be in the latter category. Moreover, there will also need to be adjustments made to the fee structure for a range of services. For instance, the average domestic waste charge in North Sydney would need to be raised by over 67% to bring it in line with the charge incurred by Willoughby residents.</p>																					
106		<p>The point is that the question of how to re-distribute municipal burdens in an amalgamated local authority is far more complex than simply ensuring all residents pay the same taxation rate (per dollar value of land). One also needs to consider how other fees and charges add to the total municipal burden and the capacity of residents to pay.</p> <p>Table 5.2: Political Representation in Target Councils</p> <table border="1" data-bbox="853 810 1906 1034"> <thead> <tr> <th>Council</th> <th>No. of Councillors</th> <th>Population per Councillor</th> </tr> </thead> <tbody> <tr> <td>Hunters Hill</td> <td>7</td> <td>2020</td> </tr> <tr> <td>Lane Cove</td> <td>9</td> <td>3747</td> </tr> <tr> <td>Ryde</td> <td>12</td> <td>9233</td> </tr> <tr> <td>Willoughby</td> <td>13</td> <td>5533</td> </tr> <tr> <td>Mosman</td> <td>7</td> <td>4229</td> </tr> <tr> <td>North Sydney</td> <td>13</td> <td>5209</td> </tr> </tbody> </table> <p>Source: Office of Local Government Measuring LG Performance 2012-13</p>	Council	No. of Councillors	Population per Councillor	Hunters Hill	7	2020	Lane Cove	9	3747	Ryde	12	9233	Willoughby	13	5533	Mosman	7	4229	North Sydney	13	5209
Council	No. of Councillors	Population per Councillor																					
Hunters Hill	7	2020																					
Lane Cove	9	3747																					
Ryde	12	9233																					
Willoughby	13	5533																					
Mosman	7	4229																					
North Sydney	13	5209																					
107		<p>Since it is highly unlikely that the NSW Government would ever allow 61councillors, it follows that if the Government presses ahead with amalgamations, then it is implicitly endorsing lower levels of democracy. This policy implication doesn't even appear to have been considered by the architects of Fit for the Future, much less clearly articulated.</p> <p>Once again it is evident that there is a good deal of variation between the six existing councils and, yet again, this means that any proposed amalgamation will necessarily</p>																					

		create winners and losers.
108		<p>For instance, the total liability per household of Willoughby residents will decrease by about \$1,500, whilst residents of Ryde will find themselves with over \$600 per household of additional liabilities following amalgamation.</p> <p>A merger would thus mean that the costs of these services have been 'exported' to people outside of the municipality which elected to consume the services.¹⁸</p>
109		<p>Finally, the fact that most residents do not have access to this information¹⁹ and will probably not be given a direct democratic voice in the decision to assume higher liabilities seems particularly wrong in a western democratic society, such as Australia.</p>
110		<p>Firstly, the proposed merger would result in winners and losers. For instance, residents of Lane Cove will find themselves firmly in the latter category should the amalgamation proceed, with an almost doubling of their household infrastructure burden. Secondly, the data clearly falsifies the OLG claim that inadequate levels of debt result in infrastructure, given that the two councils which fail the debt ratio on the basis of having no relevant debt are also the two councils with the lowest per household levels of costs to bring municipal assets to a satisfactory standard! ²²</p>
111		<p>One particularly thorny problem which both Panel and the OLG have ignored revolves around the question of how to dismember the City of Ryde should the Panel's recommendations be adopted.</p>
115		<p>Our contention is that the high information costs and rushed process means that most local residents in the six targeted North Shore group of councils will not even know the implications arising from the proposed merger until they are sent a new and significantly higher rates assessment, try to contact a local councillor, observe lower levels of road and other infrastructure maintenance diverted to areas of greater need, or discover that their personal share of municipal non-current liabilities has increased by a factor of over 50 times.</p>
117		<p>A comparison of the results indicates that the amalgamated entity will be no more financially sustainable - according to the OLG's own flawed model - than the current local councils. Indeed, in all likelihood all but one council will experience a decrease in financial</p>

		<p>sustainability. This is conclusive evidence refuting claims by both the Panel and the OLG that council mergers would improve financial sustainability.</p>
<p>118</p>		<p>In sum, even under the OLG's own criteria an amalgamation will result in a less sustainable merged municipality. Moreover, in all likelihood the actual performance of an amalgamated entity will be far worse than indicated, for the reasons set out above.</p>

Page No.	Chapter	Quote
124	<p>Chapter 6</p> <p>Economic Modelling of Proposed Mergers</p>	<p>Following Holcombe and Williams (2008) and Drew, Kortt and Dollery (2014), we thus conducted a further two regressions, stratified according to the Australian Classification of Local Government schema which is broadly consistent with the OLG classification groups. What we found was that when councils were stratified as either urban or non-urban, all evidence of scale effects (predicated on population size) disappeared. Thus the econometric evidence is at odds with the unsubstantiated assertions of the ILGRP (2013) that larger councils (predicated on population size) are ‘more robust organisations that can generate increased resources through economies of scale and scope, and then “plough back” efficiency gains into infrastructure, services and other benefits for their communities’ (ILGRP 2013, p. 32).</p>
129		<p>What we find is that five of the six existing entities currently operate with increasing returns of scale at varying levels of TE. The sixth council (North Sydney) lies on the efficient frontier and it is operating at optimal scale. An amalgamated entity (along the lines proposed by the ILGRP (2013)) would operate with decreasing returns to scale and an efficiency of just over 0.797. The proposed merger would result in a significant decrease in efficiency for the Ryde and North Sydney councils and a slight decrease in efficiency for the Lane Cove municipality. Put differently, amalgamation would result in lower levels of efficiency for three of the councils and a barely perceptual improvement for a fourth council (Hunters Hill). Given the high transformation costs, disruption to services, decrease in democracy, the redistribution of council liabilities, and the decrease in financial sustainability which will accompany the proposed amalgamation, it is more than a little disconcerting that the proposed merger will only result in a material improvement in efficiency for two of the councils involved (Mosman and Willoughby).</p>

131		In sum, there is no empirical justification for the proposed merger. Indeed, were the amalgamations to proceed as proposed by the Panel, the people of NSW can expect less efficient municipal services arising from ill-informed mergers resulting in councils which are too large to make the best use of capital and labour inputs.
-----	--	--

Page No.	Chapter	Quote
----------	---------	-------

135	<p>Chapter 7</p> <p>Socio-Economic Characteristics of the Hunters, Lane Cove, Mosman, North Sydney, Ryde and Willoughby Councils</p>	<p>Table 7.1: Overview of Council Characteristics</p> <table border="1"> <thead> <tr> <th>Council</th> <th>Population</th> <th>Area sq. km</th> <th>Population Density</th> </tr> </thead> <tbody> <tr> <td>Hunters Hill</td> <td>14,663</td> <td>6</td> <td>2,444</td> </tr> <tr> <td>Lane Cove</td> <td>33,976</td> <td>10</td> <td>3,398</td> </tr> <tr> <td>Mosman</td> <td>29,414</td> <td>9</td> <td>3,268</td> </tr> <tr> <td>North Sydney</td> <td>65,318</td> <td>10</td> <td>6,532</td> </tr> <tr> <td>Ryde</td> <td>107,307</td> <td>40</td> <td>2,683</td> </tr> <tr> <td>Willoughby</td> <td>70,705</td> <td>22</td> <td>3,214</td> </tr> <tr> <td>Greater Sydney</td> <td>4,003,847</td> <td>3,694</td> <td>1,084</td> </tr> </tbody> </table> <p>Source: PHIDU (2015)</p>	Council	Population	Area sq. km	Population Density	Hunters Hill	14,663	6	2,444	Lane Cove	33,976	10	3,398	Mosman	29,414	9	3,268	North Sydney	65,318	10	6,532	Ryde	107,307	40	2,683	Willoughby	70,705	22	3,214	Greater Sydney	4,003,847	3,694	1,084
Council	Population	Area sq. km	Population Density																															
Hunters Hill	14,663	6	2,444																															
Lane Cove	33,976	10	3,398																															
Mosman	29,414	9	3,268																															
North Sydney	65,318	10	6,532																															
Ryde	107,307	40	2,683																															
Willoughby	70,705	22	3,214																															
Greater Sydney	4,003,847	3,694	1,084																															

149-150		However, given the differences between Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby the proposed merger cannot be mounted on 'community of interest' arguments. For instance, it is worth noting that -when compared to the other councils - Ryde has:
---------	--	---

		<ul style="list-style-type: none"> • The largest population; • The largest geographic area; • The highest proportion of people in the age group 20 to 24; • The highest level of unemployment; • The highest percentage of jobless families; • The highest percentage of people of pension age receiving the Age Pension; • The highest rate of participation in vocational education and training; and • The highest rate of GP service utilisation. <p>Thus, given these differences, there is no 'community of interest' imperative to proceed with a merger, which may also inadvertently lead to a widening of these socio-economic differences if 'inner-Sydney' local government strategies are pursued at the expense of 'outer-Sydney' local government strategies.</p>
--	--	--

Page No.	Chapter	Quote
162	<p>Chapter 8</p> <p>Empirical Evidence on Shared Services in Local Government</p>	<p>While the findings summarised above differ in their scope, it is still possible to draw some broad inferences:</p> <ul style="list-style-type: none"> • Shared services arrangements can enhance local service delivery; • Some services seem to be more conducive to shared services arrangements; • Successful shared services arrangements typically include IT services, human resources and waste management; • Successful shared services arrangements can vary significantly; • Barriers to shared services arrangements can be challenging to address; and • Barriers to shared services arrangements include: (i) loss of control, (ii) competing objectives, (ii) uncertain benefits, (iv) and increasingly complex management and administrative processes.
163		<p>A useful starting point is the extensive work that was conducted by Allan (2001; 2003) and the NSW Independent Inquiry into Local Government (NSW LGI, 2006) led Allan to identify the following six aspects:</p> <ul style="list-style-type: none"> (i) 'Low core capability'; (ii) 'High supplier availability' (iii) 'Low task complexity' (iv) Significant scale economies; (v) 'Specialized technology'; and (vi) 'Low asset specificity'.

Page No.	Chapter	Quote
177-178	<p>Chapter 9</p> <p>Council Collaboration Through Joint Regional Body</p>	<p>The proposed North Sydney Council of Mayors would focus on ‘whole-of-region’ advocacy and intergovernmental relations; strategic sub-regional land use and infrastructure planning; regional Community Strategic Planning; Regional Action Plans; Regional economic development, waste and environment, social and cultural strategies.</p> <p>The Northern Sydney Regional Services Group would run collaborative projects aimed at improved financial sustainability and enhanced council capacity of voluntarily participating councils.</p>
189		<p>Section 9.4 of Chapter 9 evaluated the draft Northern Sydney Council Collaboration Model which had been drawn up after discussions between the NSROC and SHOROC groups of councils. It was argued that the Northern Sydney Council Collaboration Model represented a close approximation of the Hunter Council model and thus represented a suitable regional collaborative model for the northern Sydney group of councils. However, section 9.5 argued that the optimal selection of council functions and services to be provided collaborate was not furnished by simply establishing a designated organisational model.</p>

Page No.	Chapter	Quote
195	Conclusion	<p>(a) The weight of empirical evidence on municipal mergers in the scholarly literature and the Australian national and state public inquiries into local government falls overwhelmingly against forced amalgamation. This body of evidence holds that shared services and other forms of council collaboration provide a superior method of securing the advantages of greater scale.</p> <p>(b) Comprehensive empirical analysis of the 2000/2004 NSW compulsory council consolidation program in the Report demonstrated that there is no statistical difference in the performance of merged and unmerged councils under the Fit for the Future criteria. Similarly, a detailed investigation of the outcomes of the 2008 Queensland forced amalgamation program demonstrated that a majority of amalgamated councils now operated with diseconomies of scale. These two analyses thus provide convincing empirical case against proceeding with a further round of municipal mergers in NSW in 2015.</p> <p>(c) Detailed critical assessment of the Fit for the Future process found it severely flawed in numerous respects, not least its arbitrary use of financial sustainability ratios (FSRs) and associated benchmark values, significant problems with its 'scale and capacity' approach, problems with unreliable data employed in sustainability assessments, and an incorrect measure employed to assess the operational efficiency of councils. This provides a powerful argument for the NSW Office of Local Government to halt the Fit for the Future process and deal with these problems before proceeding.</p>
196		<p>(d) A comprehensive empirically investigation the proposed Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby council mergers found numerous problems, including the challenges posed by significant current disparities in rates, fees and charges, and capacities to pay across the six councils, problems determining democratic representation post-merger, the burden of the total liabilities inherited by a newly merged council, complications derived from the dismemberment of the City of Ryde, Commonwealth financial assistance grants post-merger, a lack of full information disclosure to local residents, and the critical fact that almost all of the North Shore group of councils would be less financially sustainable under the Fit for the Future criteria than they had been pre- merger. This underlines the foolishness of proceeding</p>

		<p>with the proposed merger.</p> <p>(e) The Report conducted two modelling exercises to investigate the outcomes of the proposed mergers. The results of the multiple regression analysis showed that the Panel's (2013) claims about scale economies proved false. The DEA analysis also demonstrated that the vast majority of proposed amalgamations would yield over-scaled councils too large to efficiently provide local services. Taken together, these empirical analyses show conclusively that there is no empirical justification for the proposed merger of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils.</p> <p>(f) The Report presented a detailed analysis of the socio-economic characteristics of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils. This demonstrated stark differences between some of these local authorities thereby proving that no common 'community of interest' existed.</p>
<p>197</p>		<p>(g) A detailed review of the literature on shared services in local government was undertaken in the Report which found strong evidence that shared services could yield significant benefits. However, not all local services are amenable to regional provision through shared service arrangements.</p> <p>(h) The Report found that shared services represent a superior alternative to forced amalgamation to improve the performance of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils. It investigated the best methods of delivering shared services and established that the Hunter Councils model represented an optimal approach. The draft Northern Sydney Council Collaboration Model - drawn up by the NSROC and SHOROC groups of councils - was based on the Hunter Councils model and it provided a sound institutional basis for council collaboration amongst the North Shore group. The Report presented an instrument which the Board of the proposed Northern Sydney Council Collaboration Model could use to determine which local services to provide collaboratively and which to retain 'in-house'.</p>