



dorset
C O U N C I L

Submission

STAGE 2 | INTERIM REPORT AND INFORMATION PACKS – FUTURE OF LOCAL GOVERNMENT REVIEW

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Executive Summary

The Future of Local Government Review Board has published detailed Information Packs for each of the nine community catchments they identified in their Stage 2 Interim Report. The purpose of this submission is to express Dorset Council's position in relation to the North-East Community Catchment Information Pack.

The three scenarios included in the North-East Community Catchment area appear to lack any real benefits to residents of the impacted councils and thus Dorset, do not support any of the proposed scenarios.

Dorset Council do not support the proposed scenarios based on the following factors:

- The case for amalgamations based on the bigger is better theory or the economies of scale theory is not made;
- Various studies from previous mainland amalgamations suggest little or no savings have been made, service delivery has not improved, regulation and compliance has grown out of proportion, with many of these councils wanting to de-amalgamate but were prevented by state government regulations resulting in residents being severely disadvantaged;
- A lack of modelling and costings for the options means that Dorset do not have any confidence in the process that has been used or the conclusions drawn;
- A lack of detail in regards to variances in process, procedures, policies and strategies across the catchment councils. Current councils within these catchments have broad variances in cash reserves, levels of debt, Local Provisions Schedules, asset renewal gaps, future capital works programs, attitude to operational matters, attitude to compliance, varying rating models, ratios of rate base to infrastructure needs, waste management strategies, community valuation timeframes plus much more. Dorset cannot see where any thought has been given as to how these variances will be managed without some ratepayers receiving a significant advantage or detriment;
- The premise that the municipalities in the North-East Community Catchment are heavily interconnected is false, when in fact the opposite is the case;
- Dorset residents would be severely disadvantaged in many areas including increased costs, loss of free access to Council facilities, poorer delivery of services, increased levels of regulation and compliance, loss of both direct Council jobs and jobs with local contractors and loss of representation by both number and demographic; and
- A loss of representation at a statewide level would also be incurred if other catchments are combined resulting in three or four large councils controlling most of the state's population and voting rights within the local government sector.

Dorset Council do not support the process to date undertaken by the Future of Local Government Review Board for the following reasons:

- Initial consultation with the community through surveys and in-person sessions did not define the current responsibilities of the local government, state and federal government sectors and thus much of the feedback from the community related to responsibilities of the state or federal government;
- The feedback was based on a statistically-minute proportion of the Tasmanian population (less than 4,000 people, or 0.72%) whereby questions were framed and devised without detailed local

government sector feedback and input, and Dorset Council's extensive consultation with the community has resulted in very different outcomes to those found in the surveys; and

- The local government sector, the community and other impacted stakeholders are expected to make key decisions without appropriate modelling, costings, consideration of change management processes and costs in relation to amalgamations, along with how General Managers and existing employees might be appointed by the proposed new councils or what might happen to those current employees who miss out on appointments.

Dorset Council proposes the following alternate scenarios:

- All four councils in the North-East Community Catchment remain the same with scope for some small boundary adjustments by negotiation with neighbouring councils with potential for additional shared services at the catchment level; **or**
- The North-East Community Catchment should be divided into three council areas, two of which could be expanded by modified boundaries. In this scenario Dorset would remain a Council in its own right, however boundaries would be extended into Launceston, George Town and Break O'Day municipalities, while Flinders Island would remain in its current state.

General Comments

Dorset Council holds the view that the case for significant structural reform of local government has not been convincingly made. Dorset appreciates that there are some councils that have specific issues with sustainability and isolation however these do not apply to the Dorset municipality.

To be calling for major reform on the basis of feedback received from a statistically-minute proportion of the Tasmanian population (less than 4,000 people, or 0.72%) is misrepresentative. Dorset feel that the sample size to make a significant structural reform such as this requires greater consultation with the Tasmanian community. Council fear that insufficient research could have the potential to have irreparable damage to the Tasmanian economy. It is not unrealistic to assume that members of the public supportive of, or otherwise unperturbed by, existing local government area configurations chose to refrain from lodging submissions in the first place. This absence of participation is particularly pronounced in urban areas, where the perception council influence on resident's lives is less than that attributed to the activity of state and federal governments.

Dorset Council's extensive consultation with the community has resulted in very different outcomes to those found in the surveys. The vast majority of people who have contacted Councillors to express their views on the reform have stressed they do not want to be amalgamated with any other council. The Dorset community either have no opinion, are currently happy, or feel that Tasmania is over governed. They do not believe that the scenarios for amalgamations would provide any benefits for Dorset residents. Anecdotally the comments from our community overwhelmingly confirm that there is a fear that as a rural community their needs and voices will be forgotten and as such be worse off.

The Stage 2 report states that the Board has heard from many Tasmanians how councils could better service their communities, however it is obvious that many of the areas outlined are neither within the remit of councils to deliver, nor are they funded to do so.

Successive federal and state governments have lumbered the local government sector with responsibilities that they themselves do not want to deliver. Frequently they create unsustainable expectations within communities by temporarily subsidising positions within councils only to walk away from further funding commitments before the roles become operationally effective; leaving councils to pick up the tab or otherwise remove the position. Residents then blame councils for that loss of service when the service was not meaningfully ours to deliver in the first place.

None of the scenarios proposed in the community catchment information packs have been modelled or costed to determine just how much it will cost councils and ratepayers for potential amalgamations or boundary variations, or whether residents in any of the proposed new councils would be any better off. Without this information it will be impossible to make a valued and accurate judgement as to whether councils and community should support any change.

There has been no consideration given as to how General Managers and senior employees might be appointed by the new councils or what might happen to those current employees who miss out on appointments or how potential redundancy packages would be funded. Already some employees at councils around the state are considering the security of their positions and whether they should take offers from outside of the sector which come with increasing regularity. There is no indication of how employees affected by statewide or regional delivery of some functions would be compensated for loss of work hours or total loss of positions. These losses will mostly occur in rural areas with the transfer of functions to go to larger metropolitan areas. In short, potential loss of high-performing personnel from the sector created by pursuit of reform with an air of reckless indifference will severely detriment future performance of the sector and the service it provides to the unnecessarily reconfigured communities created by the current process.

Mountain biking has become an increasing part of the economies of Dorset, George Town and Break O'Day and have been highlighted as a clear area of connectedness and a case amalgamation. However, the experience offered along with the requirements of trail operations and maintenance programs varies significantly in each municipality. Dorset has trails recognised as some of the best in the world with a maintenance program that is described as the gold standard and is fully funded by Council. In comparison, George Town trails are maintained mainly by volunteers, while Break O'Day use internal Council resources but not at the same scale as Dorset. It would be a significant bone of contention and cost if similar maintenance programs to Dorset's had to be implemented for all trails or if the maintenance of the Dorset trails had to be downgraded.

Stage 2 Report and Information Packs

The nine communities of interest / catchments identified in no way meet the definition outlined on page 45 of the report and in many cases, to suggest that some of these areas have inherent connectedness is both underdeveloped and unpersuasive.

Current councils within these catchments have broad variances in cash reserves, levels of debt, Local Provisions Schedules, asset renewal gaps, future capital works programs, attitude to operational matters, attitude to compliance, varying rating models, ratios of rate base to infrastructure needs, waste management strategies, community valuation timeframes plus much more. Dorset cannot see where any thought has been given as to how these variances will be managed without some ratepayers receiving a significant advantage or detriment.

Further examples of issues encountered are contained in Attachments 1 and 2.

If future councils are based even remotely on the nine catchments model and with the introduction of wards rejected, there will be many current municipalities which will not have enough electors to get a resident elected to the new councils. This was a major fault with the previous amalgamations and an area like the former Lilydale Council, to the best of Dorset's knowledge, have never had a representative elected to the City of Launceston Council. To suggest that a commissioner, administrator or local committee may need to be appointed to these areas shows a lack of understanding of rural areas and would in no way address the lack of representation.

Similarly, a municipality the size of Dorset may only have three representatives on a new North-East Council. Given the size of the proposed new council area and the preference of rural residents to bring issues direct to Councillors rather than through Council's customer service team, it would likely mean that those Councillors would be full time and require an allowance equivalent to a full time wage plus a car.

The information packs contain some detail around travel across municipal boundaries for the purposes of employment but do not in any way address other movements for shopping, schooling or social interaction. The pack for the North-East Community Catchment suggests that 38 people who live in the St Helens / Scamander area work in the Scottsdale / Bridport area. While Council does not profess to know the residential address of every person who works in Dorset, Council believes that this figure is inaccurate with Break O'Day Council of a similar opinion. There are itinerant workers such as building workers, logging contractors and transport workers who cross municipal boundaries intermittently, but this would apply across all municipal boundaries.

Another issue that would likely arise is that both the Eastern and Western Shore Community Catchments and the Tamar Valley Community Catchment would have populations in excess of 100,000 people, meaning that the Mayors of these councils would have more responsibility than a state government minister. These three councils would control over 60% of the population of Tasmania and have all of the power in any decision making process regarding the local government sector.

Statewide Delivery of Services

Once again theories of which services may be compulsorily combined have not been modelled or costed so it is difficult to have any confidence that there will be any advantage to the residents of Tasmania.

Changing to a statewide delivery of services as listed on page 60 of the Stage 2 Report will undoubtedly cost individual councils a significant amount of money to install the new technology required to comply. Dorset would assume that the State Government would be paying for this technology as they are pushing these changes. Dorset note however that there was no budget allocation for the reform process in the May State budget. This therefore begs the question: is there any allocation budgeted for the reform process in forward estimates?

The result of centralising those functions would likely be a migration of council jobs from rural areas to the major population centres which would be in contrast to the claim that local jobs will not be lost. The statewide delivery of services has the potential to create monopolies who once entrenched in a government contract would likely have no competitors at the next tender process. This would also likely result in a loss of local contractors as many contracts already delivered on behalf of the state by large contractors seldom employ local employees and contractors. The creation of monopolies may also result in increased contract costs in the future with the waste management sector in the State being a clear example of contractor amalgamations, which have partly resulted in increased costs.

Many of the services that are delivered by councils will not benefit from the economies of scale, such as local infrastructure maintenance, rate disputes, neighbour disputes, civil construction projects, customer service requests, after hours service and many more. It is debatable if services that are suggested for statewide delivery such as legal services, procurement, waste management and regulatory services will in fact deliver any cost savings, but will certainly bring more regulation and more frustration for residents when you are dealing with someone hundreds of kilometres away and has little appreciation of where you live. It is difficult to see how these variances could be assimilated even over a longer period.

Proposed North-East Community Catchment

Scenario 1

This option combines the largely conservative municipality of Dorset which relies heavily on agriculture, forestry and tourism, with the industrial municipality of George Town, which relies heavily on the industrial precinct of Bell Bay and the port, with some agriculture in the eastern part of the municipality and some growth in tourism.

Dorset believes that George Town Council's alignment with the Tamar Valley has more connectedness than with Dorset.

The rating models differ in that Dorset uses assessed annual values while George Town uses adjusted capital values. Aligning these two different systems or choosing one over the other will create significant differences for some ratepayers which could potentially cause ongoing dissatisfaction. Dorset ratepayers currently enjoy cheaper rates and charges than George Town residents plus our residents get free access to swimming pools and all Council facilities when they are part of any not for profit organisation or sporting club. This does not occur at George Town.

While there is some crossover of residents between the municipalities mainly for work at the industrial precinct there is limited crossover and connectedness in relation to schooling, shopping or social activities.

Dorset does not support this scenario.

Scenario 2

Scenario 2 provides for an amalgamation of Break O'Day and Dorset municipalities plus the addition of some of the northern end of Glamorgan Spring Bay. Flinders Island would remain as a standalone council. The combined area of the new council would be close to 8,000 square kilometres with over 1,400 kilometres of roads and in excess of 200 bridges.

There would be 2 Council Chambers, 6 Council Depots and at least 16 towns to service.

Despite what has been documented in the Stage 2 report and the information packs, Dorset and Break O'Day municipalities are physically isolated from each other by a wide strip of forest / mountain range that extends from Ansons Bay in the east to the Mathinna Plains in the west. (see Attachment 3)

While this strip of land can be traversed via three gravel roads (Mathinna Plains Road, Tebrakunna Road and Ansons Bay Road), all three are not conducive to regular travel and are prone to flooding during heavy rainfall events. A fourth access is the Tasman Highway which contains approximately 60 kilometres of narrow, winding and prone to frost and flooding road over the Weld Hill and the Weldborough Pass. The combined area is also very poorly serviced by mobile phone service and internet connection.

The main population centres of Scottsdale and St Helens are over 100 kilometres apart which takes close to 1.5 hours of travel time under normal circumstances. There is minimal crossover of residents for work, school, shopping or social activities other than some mountain biking activity.

The primary driver of Break O'Day's economy is tourism with some agriculture in the Fingal Valley and Pyengana, whereas Dorset's primary driver is agriculture and forestry with some tourism, based primarily around mountain biking, golf, seaside visitation into Bridport, coastal villages and the Waterhouse Conservation Area.

While there is some movement of mountain bike visitors between the two areas, there is little else that connects Dorset and Break O'Day.

The size of the new council area would mean additional costs in terms of logistics for operational matters, increased costs of running council meetings and a significant loss of representation. It may also limit the type of people that would be able to stand for council because of the additional workload, almost certainly ruling out business operators and full time employees.

Dorset does not support this scenario.

Scenario 3

This catchment if combined into a single council area as per the map, would have an area in the vicinity of 10,000 square kilometres with a road network of over 2,000 kilometres and a bridge network in the hundreds. There would be 20 plus towns to service plus 8 Council Depots and at least 3 Council Chambers which are currently in operation.

The cost of delivering council services across such a large area with significant geographical barriers would likely counteract, or exceed, any savings that could be delivered. Logistically the expanded area would be expensive to manage and the cost of running council meetings in all three areas would be prohibitive. Flinders Island would have a low percentage chance of being represented on the new council but would rightly expect to have council meetings held on the island in order to participate meaningfully. As previously mentioned the idea of a commissioner or local committee on the island is not sufficient.

As outlined in Scenario 2, Dorset and an extended Break O'Day are extremely isolated. Flinders Island and Dorset are separated by 60 kilometres of water via Banks Strait. There is no connection between Break O'Day and Flinders Island.

While there is some connection between Dorset and Flinders Island due to the freight and passenger movement through Bridport, there is little else that connects the two municipalities. There is a significant connection between Flinders Island and Launceston through education, air services and health but the economies of each are based on entirely different industries. Inclusion into a larger council (possibly Tamar Valley) would likely result in loss of representation and neglect from a city-dominated council that does not understand the needs of rural residents.

Similar again to Scenario 2, the increased workload of councillors under this scenario would likely rule out business operators and full time employees. Council recognise that the opportunity would exist for individuals with relevant experience to be able to focus solely on council which may result in greater diversity and experience, however this would require appropriate remuneration and result in increased costs for the amalgamated council. A possible unintended consequence of a substantial increase in councillor allowances due to the increased workload, may rule out people on any sort of government concession allowance as the amount of an increased allowance would likely void those payments.

Flinders Council has a unique set of issues around the cost of delivering services to the 52 islands under its control, especially waste management, the airport, road infrastructure and waste water. Under any scenario Flinders will need a massive injection of funds from either the state or federal governments to address at least the issues of waste management (\$10 million plus) and the ongoing costs of running the airport - including a new future runway costed at \$28 million in 2016. No amalgamated council could feasibly afford these improvements.

Dorset consider that an amalgamation of these three municipalities would be unworkable and provide no benefit to the ratepayers of any municipality.

Dorset does not support this scenario.

Recommendations

1. All four councils in the North-East Community Catchment remain the same with scope for some small boundary adjustments by negotiation with neighbouring councils. There is some scope for additional shared services at the catchment level which could be explored.

Or

2. The North-East Community Catchment be divided into three council areas, two of which could be expanded by modified boundaries.

Flinders Island would remain in its current state but significant funding must be allocated by the state or federal governments to alleviate the specific issues already mentioned.

Break O'Day would remain a council in its own right with the possible addition of the northern part of Glamorgan Spring Bay down to Cherry Tree Hill. This is the point where residents north of this line play sport, shop, go to school, work and socialise in the Break O'Day area. South of this line, residents travel to Sorell for the same reasons, however there is a substantial movement of people from Sorell to Glamorgan Spring Bay for work in the salmon industry which must be considered. The option to include part of Glamorgan Spring Bay would mean that council would disappear. Further modelling and costing would need to be completed to see whether there is any advantage in this option especially for the residents of Glamorgan Spring Bay.

Weldborough and the Blue Tier mountain bike trails could be transferred to Dorset given that Dorset already maintains this important part of the Blue Derby mountain bike trail network. Additionally, Weldborough residents go to school, play sport, shop, work and socialise mainly in the Dorset municipality mainly due to the inaccessibility of the Tasman Highway linking Break O'Day and Dorset. This area is also serviced by Dorset companies in terms of both inbound and outbound freight.

There is a second area west of Ansons Bay which contains two large farms (Telegraph and Ansons Meadows) and several smaller farms who similarly are serviced by Dorset based companies and whose residents also attend school, play sport, shop and socialise mainly in Dorset. This area should be considered for inclusion in the Dorset municipality via negotiation with Break O'Day Council.

Based on the above Dorset would remain a council in its own right but depending on what happens with George Town and the proposed Tamar Valley Community Catchment, possibly include the Pipers River, Pipers Brook area of George Town along with the coastal villages of Lulworth, Weymouth and Bellingham.

These areas have geographical alignment with Dorset along with similar economic and social interests, e.g. farms and coastal villages. If George Town was to be included into a Tamar Valley Council then these areas would have much more in common with Dorset than with the new Tamar Valley Council

The same can be said for the Lebrina, Lilydale, Karoola, Nunamara, Patersonia, Camden, Targa and St Patricks River areas who are currently part of the municipality of Launceston. These areas are primarily rural and geographically aligned to Dorset with similar interests and easily defined connectedness especially with the upgrade of the Sideling.

Both of these scenarios will require feasibility studies including financial modelling, costings and a review of integration of the new areas.

1. Government News Article | 19 June 2023

"Amalgamation led to financial gaps for Council, audit finds"

<https://www.governmentnews.com.au/amalgamation-led-to-financial-gaps-for-nsw-Council-audit-finds/>

ASSETS & FLEET



Judy Skatssoon

Amalgamation led to financial gaps for council, audit finds

19 June, 2023



MidCoast Council experienced significant challenges in its implementation of a consolidated financial management system following amalgamation in 2016, the NSW auditor says.

A regional NSW council that experienced gaps in financial management and governance following amalgamation faces ten years in the red, a report has found.

SHORTLIST 0

In 2016 Gloucester Shire, Greater Taree City and Great Lakes Council became MidCoast Council under the then state government's program of forced amalgamations. MidCoast further merged with MidCoast Water in 2017.

Today, it covers around 10,000 square kilometres on the state's mid north coast and has a population of 96,500.

In FY2020–21, MidCoast Council ranked 11th in New South Wales for revenue and ninth for expenditure. The Council managed around \$346 million income and around \$266 million in expenses. It received around \$57 million in grants and contributions.



NSW Auditor General
Margaret Crawford.

Legislative, policy requirements not met

An assessment by auditor general Margaret Crawford investigated whether MidCoast's financial management arrangements were adequate for councillors and management to fulfil their responsibilities as financial stewards.

She found MidCoast had not met all its legislative and policy requirements for long-term financial planning, with gaps in financial management and governance identified in 2019-20. Some of these have since been addressed, Ms Crawford noted.

However, the council would continue to operate in deficit for at least another ten years, the [report](#) says.

"MidCoast Council experienced significant challenges in its implementation of a consolidated financial management system following amalgamation in 2016 and the merging of MidCoast Water in 2017. This led to gaps in finance processes and data quality," the report concludes.

"Since 2020, and throughout 2021 and 2022, MidCoast Council has identified a need to focus on developing strategies for financial sustainability following the projected operating deficit for its general fund over the next ten years."

Impact of amalgamation

General manager Adrian Pannuccio said the amalgamation that created MidCoast occurred with limited notice and minimal community consultation.

"This significantly impacted the ability of the former Councils to work together to ensure critical business functions were transitioned in a planned manner," Mr Pannuccio said.

After amalgamation, Council continued to use four separate financial management systems until the introduction of a consolidated ERP system in 2021, the report found.

While the new system was being implemented – at a cost of \$5 million – MidCoast experienced significant problems with change management, user functionality and configuration.

This meant that "the Council did not ensure that all of its staff were using (the system) effectively and efficiently, which led to gaps in finance processes and data quality, and delays in delivering integrated and automated financial processes across the amalgamated Council," Ms Crawford said.

In some cases this resulted in manual or duplicated work by finance staff, data input errors and staff performing processes outside the system.

The report also found MidCoast didn't have formalised governance arrangements for key financial and budget decisions by its executive until February 2021, and lacked policies and procedures to guide its approach to financial management until October 2022.

Midcoast says it is currently implementing improvements to the system which will cost it \$21 million over five years.

SHORTLIST 0

Responding to the audit, Mr Pannuccio said Ms Crawford's recommendations were consistent with the improvement path Council has been on since 2021.

Ms Crawford said while the report focused on MidCoast Council, the findings should be considered by all councils "to better understand the challenges and opportunities when addressing financial sustainability and financial management needs".

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2. Professor Percy Allan AM Paper | September 2003

"Why Smaller Councils Make Sense"

<https://percyallan.com/>

Why Smaller Councils Make Sense

Percy Allan AM, Visiting Professor, Macquarie Graduate School of Management, Chairman of *Review Today*
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This article presents a case for smaller Local Governments based on notions of economic efficiency and community identity service responsiveness and political accountability. The arguments of sceptics (or those favouring greater Council amalgamations) are challenged and refuted. Further elaboration of the case can be found in my recent book Secession: A Manifesto for an Independent Balmain Local Council (2001).

Conventional wisdom generally says that amalgamation is necessary to make local Councils more cost efficient. Yet smaller Councils are more responsive to citizens' needs and give better service. What can be done to make Councils more democratic and also give better value for money?

The answer is to break up our metropolitan Councils into smaller political units and amalgamate their back offices into contestable shared service centres. My book *Secession: A Manifesto for an Independent Balmain Local Council* outlines a vision for reforming Local Government, starting with my own suburb of Balmain (Allan 2001).

Balmain is one of Australia's oldest suburbs situated on a peninsula of Sydney Harbour. Its residents pay among the highest Council rates in NSW (because of its inflated property values), yet its civic infrastructure and local services (provided by Leichhardt Council) are of a Third World standard.

Recognising the Realities

Any reform strategy for Local Government should recognise two realities.

The first is that most people believe 'small is beautiful'. Residents want *local*, not regional government. Residents also want *micro-solutions*, not grand plans.

The second reality is that large is necessary (for some things). Most Council functions do not need to be big to be efficient. But some functions benefit from size (eg works and maintenance, rates and payroll processing, database management).

Why Small is Beautiful

Smaller Councils have many inherent advantages. They:

- allow better access to elected Councillors and senior administrators;
- have a better knowledge of local conditions and opinions so can better target services;
- can consider local issues (eg footpaths, parks, projects) at Council meetings since their agendas focus on a smaller geographic area;
- are more cost conscious since they are forced to outsource many services which bigger Councils keep in-house;
- have flatter administrative structures so can coordinate different tasks more easily;
- are less likely to become hostage to restrictive work practices which often arise in large hierarchical organisations where workers become alienated from management.

Smaller Councils are clearly more popular with residents. This is borne out in countless surveys. For instance the NSW Boundary Commission polling of individual municipalities (eg Concord, Drummoyne)

showed that citizens want smaller not bigger Councils. The Sydney City Council has strived hard to expand its boundaries, yet its own polling showed that except for parts of South Sydney (with which it has a natural affinity), inner Sydney areas reject amalgamation with the City of Sydney even when offered more money. Polling by other Councils (eg Woollahra, Hunters Hill) show similar results.

Legacy of Amalgamations

It is interesting to compare the actual results of amalgamation attempts in other states with what the architects of these 'rationalisations' originally promised.¹

Victoria: Here the government promised savings of 20 percent yet got only 8.5 percent which was mainly from introducing competitive tendering, not mergers. The public backlash to amalgamations, especially in rural areas, was perhaps the prime reason for the Kennett government losing office.

South Australia: Authorities promised a saving of 17.4 percent but realised only 2.3 percent. Rates escalated after a temporary freeze and not surprisingly the public became disenchanted with mergers.

Tasmania: A shift from tiny to medium sized Councils has had mixed results. A further attempt at achieving bigger Councils backfired there was a public backlash and the government backed down.

Following the failures in these three states, governments elsewhere in Australia have been reluctant to embark on forced amalgamations.

Where recent attempts have been made to achieve bigger Councils the results have generally not matched the expectations. Take recent examples in inner metropolitan Sydney.

At Canada Bay (a newly formed municipality) 75 percent of respondents rejected the union of the two former Councils of Concord and Drummoyne, yet the union went ahead. There was a strong voter backlash resulting in the newly elected Council being ungovernable at its inception.

In Burwood and Strathfield opinion polls showed a respective 56 percent and 75 percent of respondents were opposed to amalgamation of the two municipalities. On seeing these results the Councillors of Strathfield baulked and pulled out of merger talks.

The Sydney City Council has had a long history of failed mergers. It finally succeeded in the eyes of the public when its jurisdiction was confined to the CBD and kept out of suburbia.

Efficiency and Size - What Does Economics Say?

Economic theory correctly recognises that there are economies and diseconomies of scale. As the volume of a service or good expands, the average cost per unit of output falls until it reaches its lowest average cost of production.

Production costs consist of (1) variable costs (eg wages, electricity charges), which vary with the volume of output, and (2) fixed costs (eg rent, debt charges), which do not vary with the level of production. The marginal cost of production (ie the cost of producing each extra unit of output) naturally falls as fixed costs get spread over increasing units of output. Falling average (and marginal) costs also happen because greater size enables a division of labour and specialisation of task, increased scope for shared services within the organisation and increased dimensional capacity.

However, beyond a certain point of production (which varies greatly in different industries) diseconomies set in. These arise because of control span limits, coordination complexity and the need for expensive communication/ information networks to ensure that everyone in the organisation stays in the loop.

The typical average cost curve of an economic entity is shown in Figure 1.

¹ Woollahra Municipal Council 2001 'Supplementary Submission to the (Sproats) Inquiry into the Structure of Local Government in Eight Council Areas in Inner Sydney', *Review Today*, February: 12-20.

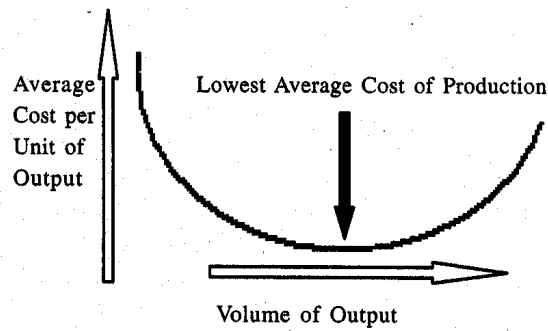


Figure 1: Economies and Diseconomies of Scale

Ronald Coase (1937) first brought the importance of economies of scale in generating large organisations to public attention in the thirties. He said that large organisations, such as companies, make sense when the ‘transaction costs’ associated with buying things on the market exceed the fixed costs of establishing and maintaining a bureaucracy.

For a long time Coase’s rationale ruled and organisations used it to justify bigger and bigger size regardless of performance. Yet in the last two decades many company analysts, shareholders, clients and staff have started questioning the efficacy of ‘bigger is best’.

In a special supplement entitled ‘The Future of the Company’, *The Economist* had this to say after reviewing international corporate trends:

Modern technology is shifting the balance of advantages away from firms and towards markets. The current goal is to focus on the few things at which they undoubtedly excel and to hand over everything else to equally focused specialists (*The Economist* 2001).

Efficiency and Size - What Researchers have Found in Local Government

Almost all the international research on whether size matters in Local Government comes to the same conclusion - bigger Councils are less economical and less locally responsive. The public’s suspicion about amalgamations is not ill conceived, it is supported by hard data.

The findings of some of the leading authorities in the world are worth citing:

Concentrated structures were associated with higher spending than more fragmented Local Government and ... there may be diseconomy of scale factors operating that outweigh the technical benefits of larger units (Boyne 1992).

It was once thought that small Local Governments allowed more community control, but were more costly than larger units.

Now the view is that smaller units are the most democratic and participative, and also the most efficient.

Research shows that larger units tend to spend more per head than smaller units, even with the same general population characteristics (Jones 1993).

By 1991, the issue had been thoroughly investigated, and there was precious little evidence to support the consolidation position (Sancton 1996).

When combined with the empirical evidence from overseas, the economic and public policy literature supports the contention that there is no single or standard size that is appropriate for local authorities (Australian Institute of Urban Studies 1999).² Indeed much of the evidence fails to discover the operation of scale factors in producing efficiencies.

Fragmentation is associated not with higher, but with lower Local Government spending per capita. Numerous empirical studies have found this relationship.

² A Witherby, B Dollery, M Auster & N Marshall 1999 *Report 1: Is Bigger Better? Towards a Model Process for Local Government Structural Reform*, Australian Institute of Urban Studies, p.7.

Moreover the relationship holds up when indicators of public demand for services are controlled, supporting an inference that fragmentation is positively related to efficiency.

Fragmented metropolitan areas tend to get more service for less spending (Oakerson 1999).

The favourite academic of the amalgamation movement in Australia is Stephen Soul. Yet few in this group appear to have read his thesis (2000), which favours mergers for political reasons (it is easier to implement urban consolidation in bigger Councils where local influences can be submerged) rather than economic imperatives. Indeed Soul's research on the relationship between average operating costs, average rates and Council size in metropolitan Sydney bears out what others have found overseas. See Figures 2 and 3.

Costs: Increasing population yields a lower level of gross expenditure per capita; however, once this reaches 31,500 to 100,000, increasing population size results in higher levels of gross expenditure per capita.

Rates: The line of best fit indicates that the average rate per residential assessment among NSW jurisdictions rises consistently (with size) throughout the population of jurisdictions and will continue to rise to at least 2.3 million residential assessments (Soul 2000).

Work undertaken in 2001 for Woollahra Council by 'Review Today', a specialist Local Government performance review group, found that economies of scale varied greatly for different types of Council activities.³ Routine processing such as rate notices and paying invoices exhibited scale efficiencies, as did capital works and maintenance, for instance footpaths and lawn mowing. However, matters requiring case-by-case determinations such as local environment plans, development approvals and new traffic signs required small-scale management to be efficient. Corporate services such as policy-making, building codes and community consultation showed a mix of scale efficiencies and inefficiencies.

³ Woollahra Municipal Council 2000 'Submission to the (Sproats) Inquiry into the Structure of Local Government in Eight Council Areas in Inner Sydney', *Review Today* December:20-22.

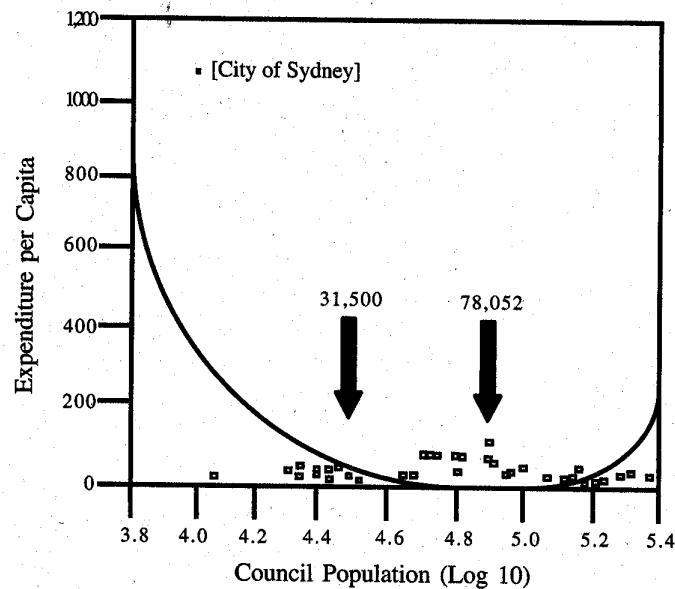


Figure 2: Average Costs versus Council Size

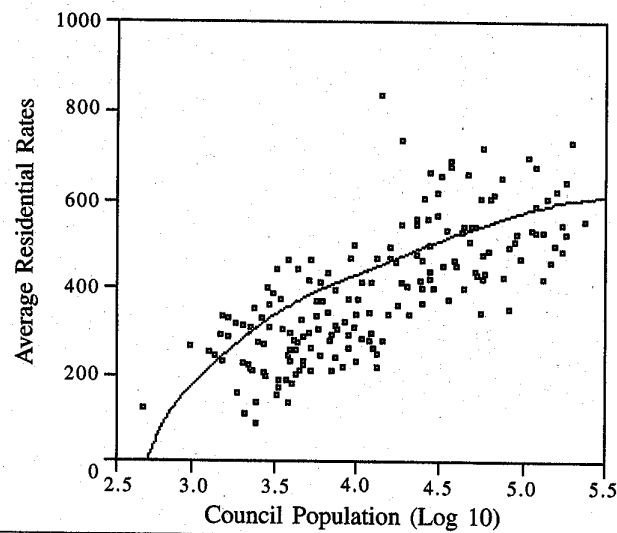


Figure 3: Average Rates versus Council Size

What Matters in Modern Organisations?

The consumer revolution is encouraging citizens to demand greater choice, transparency and responsiveness from both public enterprises and public bureaucracies. What this requires is speed (an information age imperative), not size (an industrial age hangover). Charles Handy, one of the world's most respected management advisers, tells us that for an organisation to have the flexibility to respond quickly, effectively and efficiently to its market (whether they be consumers or ratepayers) requires a shamrock structure, not a big bureaucracy. The three elements of such a structure are illustrated in Figure 4.

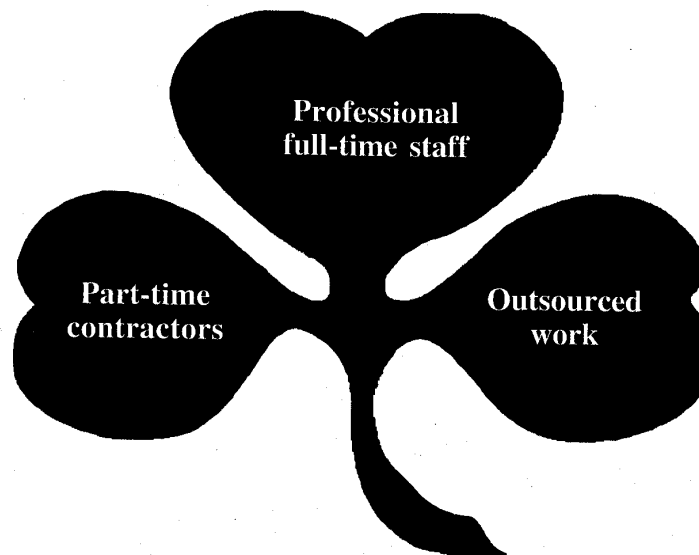


Figure 4: The Shamrock Organisation Structure

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Local Government Reform - The Way Forward

The traditional school of thought would have us believe that the choice in Local Government is between bigness (efficiency) and smallness (democracy). Yet as the empirical evidence overwhelmingly demonstrates this is a false trade-off. Indeed bigness impedes both democracy and efficiency in local Councils.

The traditionalists support amalgamations against popular will on the dubious prospect of greater efficiency or are resigned to the status quo on the basis of political convenience. Yet there is a third way that addresses both (1) the popular demand for small discrete municipalities that people can identify with, and (2) the administrative desirability of doing some things on a large scale to achieve cost efficiencies.

To resolve the conundrum of big versus small in Local Government it is instructive to draw on the lessons of mutuals, unions, private enterprises and government in other areas of activity. Here are some examples:

- *Australian Credit Union Movement:* Independent shop fronts offer sophisticated financial services because they are linked to one of two shared service centres that act as their bank, raise finance, process their mortgages, service their ATMs, etc.
- *American Union Movement:* Small local unions with only a few hundred members offer full services because behind each union is a shared service centre that provides them with membership processing, collection of dues, specialist legal advice for employee contract negotiations, newsletter production, consumer discount deals, etc.
- *Multinational conglomerate:* Large corporations with diverse businesses such as General Electrics often pool their support services (eg recruitment and training, payroll and leave applications, bulk purchasing, environmental and legal advice, financial transaction processing) to free up their autonomous business units to concentrate on their core operations.
- *Business rivals:* Westpac and the Commonwealth Banks are in stiff competition yet have established a joint venture, initially to process their cheques and, if this succeeds, to combine their key back office functions.
- *State government:* Within the NSW government several departments have banded together to buy their administrative support (eg records management, accommodation, bulk purchasing, fleet management, human resources, financial management, IT, etc) from a Central Corporate Services Unit located in the Department of Works and Services.

These examples raise an important question. If other spheres of private and government activity can achieve efficiencies and better service without amalgamating existing independent operations why can't the same be done in Local Government?

A Feasible Plan for Reforming Local Government

Drawing on the lessons of other sectors and industries it should be possible for local Councils to be small enough to be responsive to street-level concerns yet have access to the economies that come with accessing big suppliers. Let me propose a three-step plan:

Stage 1 - Democratic choice: Citizens should be free to decide what size municipality they want. A state government could put former and upper limits on this (eg 20,000-100,000 residents which by Soul's data and IPART's would suggest optimal cost efficiencies).⁴

Stage 2 - Joint services centres: Councils would be required to transfer those services that would benefit from being done on a larger scale to a shared services centre (SSC). The SCC would be jointly owned and governed by its member Councils. The SCC would be run strictly as a business providing works, maintenance, IT, financial services, etc to participating Councils on a fee-for service contract basis.

Stage 3 - Competitive sourcing: To ensure that an SSC gave value for money, there would be a sunset clause on its exclusive mandate. Thereafter, Councils would be free to choose alternative suppliers if they offered better services. The SCC would be required to cease those services for which it had insufficient clients.

Answering the Sceptics

At forums I have encountered four main criticisms of my model. Let me answer each of these challenges to my proposal for keeping Local Government small at the community face while confining amalgamations to back-office support.

- *Criticism:* The model does not address equalising rates and services within inner Sydney.

Answer: This prompts a question - is this the real agenda of the amalgamation movement and if so why won't it say so? The purpose of having a third tier of government is so that each municipality should have the discretion to decide both the level of rates and services it wants. Income and wealth distribution is the function of the Commonwealth (and to a lesser extent state) governments, not that of Local Government. However, if inter-municipal equity is a key concern then it should apply across the whole of Sydney or NSW, not just inner-Sydney. Putting a levy on all ratepayers and distributing the total proceeds through the state's Grants Commission would be the fairest solution. But most people expect Local Government to be a vehicle for local diversity, not an instrument for statewide harmonisation. Otherwise abolish Local Government and have its services provided by state government.

- *Criticism:* It does not address regional planning and coordination.

Answer: This is not the job of Local Government, but of state government. This is why state departments of urban planning and infrastructure exist. Such a department with input from local Councils and regional organisations of Councils (ROCS) should set regional planning strategies and guidelines. Councils should be required to operate within those guidelines. State governments should be held responsible and accountable for such regional frameworks as distinct from the present situation where the Land and Environment Court (an unelected body) is perceived as the final arbiter on many policy matters.

- *Criticism:* Smaller Councils would be more susceptible to minority group capture.

Answer: Local Government should be about local capture. The smaller the Council the more control and hence responsibility citizens feel for its operations. This should deter Councillors from acting

⁴ See the Independent Pricing and Regulatory Tribunal of NSW 1991 *Benchmarking Local Government Performance in New South Wales: Final Report*, April, Figure 6. 1, p.44.

against the community interest. If there is a wider metropolitan or state interest at stake (eg regional planning and infrastructure) then the state government should exercise the power to set the framework within which local Councils make their decisions. Ultimately the state government has to answer to all electors, most of whom live in a metropolitan area. It is noteworthy that the NSW government has now established a super department of urban and transport planning because it recognises that cross-metropolitan planning requires joint attention to urban transport, civic infrastructure and property development. While local Councils should have an input to this, attempts to devolve it to ROCs have generally failed, with the possible exception of the SE Queensland ROC.

- *Criticism:* The model does not resolve all the other issues about Local Government.

Answer: Agreed, but nor is it a deterrent to addressing these issues. The other major issues concern governance (democratic participation and administrative integrity), accountability (public transparency and communication) and performance (relevant services, value for money and prudent management). Smaller Councils subject to close community scrutiny and outsourcing their needs from a shared services centre and other suppliers under contract are more likely to achieve these outcomes than bigger Councils that do everything in house and are remote from their ratepayers.

Conclusion

Local Government reform should recognise two fundamental realities, one of which is administrative and the other political.

At the administrative level the efficiency and effectiveness of a local Council is not a function of size. All the empirical evidence suggests that big is not better when it comes to Local Government. Where economies of scale are relevant (eg public works and maintenance depots), the most practical solution is fee-for-service shared service centres, not amalgamations.

The political reality is that people believe that small is beautiful - they want their local Council centred on their neighbourhood. People identify with distinct localities, not amorphous regions. People want their local Councillors to address micro-issues at street and precinct level. People expect state government to address wider regional issues and set regional visions and strategies with active input from local Councils and ROCs.

It is time the traditional approach to amalgamation was put in the too hard basket and that state governments addressed the real GAP that concerns people about Councils:

- governance;
- accountability; and
- performance.

Reorganising Local Government to encourage more local metropolitan Councils (covering smaller areas) that are each serviced by a small administrative unit and backed up by a regional shared service centre (using outsourced services where appropriate) would deliver more responsive Local Government, better place management and lower costs and rates.

This is not a fanciful vision, but a practical model that has already been realised in various forms in other countries. The success of the 34 Lakewood Plan small-scale contracting Councils (USA), the 400 Street Associations in St Louis County (USA), the 1000 Business Improvement Districts in the USA and Canada, the myriad of small well-run local Councils in Switzerland and the Papakura District Council of Auckland, New Zealand, all demonstrate that there is a realistic alternative to fusing Councils into political behemoths that have little or no identity with individual communities.

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3. Boundary Maps



