

Promising start; poor finish

Summary

The Local Government Board made a promising start with its recent review of local government in Tasmania. Given a broad scope and adequate time to conduct the review, interested parties had reason to be optimistic about the board's output.

The board adopted **five principles** to guide its work program: the board committed itself to be: transparent; independent; consultative and community-focused; evidence-driven; and innovative and future-focused. The board should be commended for its adherence to the first three principles, which are essentially about the *process* of the review.

However, as to the substantive principles that underpin the board's findings and recommendations—evidence-driven, and innovative and future-focused—the board has failed in its purpose.

In particular, the board's findings and recommendations on council amalgamations pay no attention to the overwhelming evidence, both in Australia and overseas, that local government **mergers fail to live up to expectations**. And despite being asked to undertake "...research and analysis to create a clear and *empirically robust* picture of the current state of local government", the board has paid lip service to this critical task.

As a result, the final report is disappointing. The Minister should treat the board's recommendations with caution, especially those relating to amalgamations and innovation.

I note the board's belief that two main types of reform are needed:

- 1) **structural reforms**, that is, amalgamations or mergers of existing councils; and
- 2) **specific reforms**, including improvements to how councils are governed, funded, and deliver services.

On point 1, my submission contrasts the board's findings with the empirical evidence on this topic. On point 2, I endorse many of the board's proposed reforms. However, an innovative, open-minded approach would have led the board to propose more forward-looking options, consistent with the terms of reference and scope of work.

Structural reforms

The Local Government Board has recommended that the number of councils in Tasmania should be cut in half, from the existing 29 to 15. In its final report (October 2023), the board made its position clear on this topic:

- The status quo is neither an optimal nor sustainable model for the sector, given growing demands, complexity, and sustainability challenges.
- Some form of consolidation is necessary to deliver greater economies of scale and scope, at least for some services.
- The scale and extent of the consolidation needed to deliver significantly better services will, unfortunately, not occur on a purely voluntary basis within the current framework (Final Report, page 40).

Let's take these point by point.

What is optimal?

The board asserts that the 'status quo is neither an optimal nor sustainable model'. However, the board fails to provide objective criteria to assess the 'optimal model' for a local government unit. Local government units in Australia and overseas vary on a range of criteria: population, demographics, geographic area, land use, and economic potential, to name a few.

In 2014, the Government of Ireland enacted a major reform program that resulted in mergers of city and county councils, the dissolution of town councils, and the introduction of new municipal districts. Key structural reforms included:

- local authorities reduced from 114 to 31
- 80 town councils dissolved
- 95 municipal districts established
- 10 regional authorities replaced by 3 regional assemblies.

In response to the Irish government's reform program, a team of researchers¹ reviewed the empirical research on the rationale for and experience of local government mergers internationally, including in Australia. In one paper the team cited², the researchers reviewed 34 different studies into the relationship between local authority size and the cost-of-service delivery in several countries. They found that:

... 39 per cent find no statistical relationship between per capita expenditure and size, 8 per cent find evidence of economies of scale, and 24 per cent find diseconomies of scale. From this evidence alone we can conclude that there is a great deal of uncertainty about whether economies of scale exist in local government service provision.

¹ Mark Callanan, Ronan Murphy, Aodh Quinlivan, *The Risks of Intuition: Size, Costs and Economies of Scale in Local Government**, Economic and Social Review, vol. 45 #3, Autumn 2014, pp 371-403

² Byrnes and Dollery (2002)...

The Irish team reviewed empirical studies on local government from the United States, 21 European countries, the United Kingdom, New Zealand, several Canadian provinces and Australian states. The team concluded:

...there is no clear basis for the often confidently asserted assumption that larger local authorities are more effective ... Rather, there is enough international evidence to cast considerable doubts over such claims.³

Economies of scale and scope

The Irish research team examined both the theoretical debates on these issues and the international experience with local authority mergers in several countries. They assessed the relationship between size and expenditure/service levels in Irish local government, drawing on available data. In summary:

Overall, the research suggests a weak link between size and costs, and that local authority mergers may have limited *intrinsic* efficiency value and can involve considerable transitional costs. Most local authority services appear to possess limited economies of scale, the main exceptions being specialised services, the production costs of capital-intensive services, and some administrative overheads and “back office” functions.⁴

Complicating the debate over size and efficiency is the fact that, in contrast to most public and indeed private organisations, local authorities are multi-functional bodies that provide a diverse range of services. The reality is that economies of scale usually relate to the nature of production processes. Therefore, the optimal size of delivery organisations varies depending on the service, each of which has its own production characteristics (Houlberg, 2010⁵; Dollery and Fleming, 2005⁶).

Even within service areas there are typically multiple activities. As different activities are likely to possess different scale characteristics, no single authority (large or small) is likely to be of the optimal size to produce all of them efficiently⁷.

The weight of empirical research and practical experience confirms the findings of the Irish team. For example, a team led by Dana McQuestin at the University of Technology Sydney analysed a 17-year panel of empirical data from LGAs in Queensland (2003 to 2020)⁸. Following a reform program implemented in 2008, the number of LGAs in Queensland was reduced from 157 to 73. The McQuestin team concluded that no material effect had arisen from amalgamation. Initial savings were negated by increased costs in the medium-term and an insignificant impact over the long term. The team noted that the policy documents

³ Callanan, Murphy, Quinlivan (2014) p384

⁴ Callanan et al p371

⁵ Kurt Houlberg is professor in Public Policy at VIVE, the Danish Centre for Social Science Research.

⁶ Brian Dollery and Euan Fleming, A conceptual note on scale economies, size economies and scope economies in Australian local government, 2005, University of New England, working paper # 2005-6, ISSN 1442 2980

⁷ Callanan et al p376

⁸ Dana McQuestin, Joseph Drew and Hirokuni Iiboshi, *The temporal dependence of public policy evaluation: the case of local government amalgamation*, Local Government Studies, vol 49 2023, issue 5 (pages 953-974)

...frequently refer to savings arising from economies of scale, employee rationalisation [etc]. However...these processes may still not have been implemented in a decisive fashion despite the reforms occurring well over a decade ago (McQuestin, Drew, Hirokim, The temporal dependence of public policy evaluation: the case of local government amalgamation, published February 2022).

Consolidation...will...not occur on a purely voluntary basis

Despite recognising that consolidation will *not* occur on a voluntary basis, the Local Government Board recommends 'a program of voluntary amalgamations' (p11). The board has gone into this project with the mind-set that amalgamation is the answer. This is a well-trodden path by policy makers in Australia and overseas, despite all the evidence to the contrary. As the Irish team observed:

The assumption that such proposals would save money, yield efficiencies and improve performance is taken at face value and goes unquestioned by the media and it seems by most of the wider population... However, international research and studies on local government amalgamations reveal far more circumspect findings, suggesting that we should perhaps be far more sceptical about the automatic assumption that "bigger is better". (Callanan, Murphy, Quinlivan (2014) p373

A research team in the Netherlands⁹ made similar findings. The team studied the effect of municipal amalgamation on local government spending, taxation, and service provision in the Netherlands. Their conclusion:

We find no significant effect on aggregate spending or taxation... We also investigate[d] whether amalgamation leads to better public services instead of lower spending but find no evidence.

Nevertheless, the usual outcome of local government reviews is forced amalgamations, despite initial promises to the contrary. Witness the experience in New South Wales (2016), Queensland (2008) and South Australia (2016), to name just some of the Australian examples.

Much more could be written on this aspect of the board's final report, but the deadline is at hand.

⁹ Allers, Geertsma, Journal of Regional Science, vol. 56 issue 4, September 2016, pp 659-682

Specific reforms

In its final report, the Local Government Board proposes a list of specific reforms, including improvements to how councils are governed, funded, and deliver services.

My comments on the board's list of specific reforms are limited due to time constraints. Suffice it to say that I endorse many of the board's proposed reforms. However, an approach that encouraged 'new, novel, and innovative reform possibilities' would have led the board to propose more forward-looking options, consistent with the terms of reference and scope of work.

For example, I note that the Premier, Jeremy Rockliff, recently proposed a renewable energy zone for north-west Tasmania (The Mercury, Wednesday 28 February 2024, p4). This type of proposal is consistent with the Minister's request that:

...the design of local government should provide for councils that enable local communities to meet their present needs and plan for the future, *in the context of broader regional and State-wide approaches* (see Terms of Reference, item 2, point 3c).

A renewable energy zone is just one example of a special economic zone (SEZ). A special economic zone is an area that is subject to different economic regulations than other regions within the same country¹⁰. SEZs are an instrument of socio-economic development. They are deployed to kick-start industrial sectors and to promote technology transfer. They can improve the investment environment by reducing transaction costs and increase the ease of doing business by streamlining administrative procedures.

I would welcome the opportunity to elaborate on any of the points made in this submission. I wish the new Minister for Local Government well in considering the board's final report and the final submissions from interested parties.

¹⁰ 1 Adam Barone in Investopedia, <https://www.investopedia.com/terms/s/sez.asp>, accessed 26 August 2020

