

Alternatives to Amalgamation in Australian Local Government: Lessons from the New Zealand Experience

Brian Dollery, Ciaran Keogh and Lin Crase

Abstract

Amalgamation has traditionally represented the most important instrument of local government reform in Australia. However, over the recent past large sections of the Australian local government community have begun to question not only the economic outcomes of council mergers, but also their divisive social effects and adverse impact on local democracy. Across Australia, municipal councils have begun developing alternative models of local governance that seek to achieve more efficient local service provision without the ill effects of amalgamation. In many respects New Zealand local government has already undergone a similar process. This paper examines the New Zealand experience and attempts to draw lessons for Australian local government reform.

Keywords: *Amalgamation; local government; New Zealand; reform*

1. Introduction

Council amalgamation has been aptly described as the ‘thread which runs through Australian local government history’ (Vince, 1997, p.151). Over the past fifteen years South Australia, Victoria, Tasmania have all witnessed extensive municipal restructuring which seems to capture the enduring belief by Australian state policy makers that ‘bigger is better’ in local government. Structural reform is once more under way; this time in the form of a program of compulsory amalgamation in NSW, and with the prospect of substantial municipal reform looming in the Northern Territory, Queensland and Western Australia.

However, repeated episodes of structural reform centred on amalgamation have served to replace the earlier consensus that 'bigger is always better' with trenchant scepticism in the Australian local government community, particularly in non-metropolitan areas of the country. To a significant degree, this scepticism derives from the observed real-world outcomes of actual amalgamation programs. For instance, notwithstanding extravagant predictions by advocates of the South Australian and Victorian council mergers, the consequences of these programs have been disappointing. For example, whereas the Victorian government claimed that its radical structural reform process would generate direct cost savings of 20 per cent, the actual cost reductions seem to have been about 8.5 per cent, stemming largely from competitive tendering and not restructuring (Allan 2003, p.75). In a similar vein, the South Australian authorities trumpeted savings of 17.4 per cent, but only achieved around 2.3 per cent (Allan 2003, p.75). Moreover, these apparent savings do not even consider the substantial indirect costs of council consolidations, such as lower economic activity and falling employment in regional, rural and remote council jurisdictions. These disappointing outcomes should have come as no surprise since the unhappy consequences of municipal amalgamations have been well documented, both in Australia (Dollery and Crase 2003) and elsewhere (Boyne 1998; Oakerson 1999; Sancton 2000).

Perhaps the most important implication of the current scepticism over the efficacy of local government consolidation as a means of improving municipal operational efficiency has been the search for other methods of enhancing council effectiveness. Across Australia acute financial stress has galvanised regional, rural and remote councils to

spontaneously invent numerous new forms of local service delivery. However, the very spontaneity that has engendered this remarkable process has meant that it has occurred across non-metropolitan Australia often with councils or groups of councils arriving at similar solutions to common problems in ignorance of the efforts of other local authorities. Moreover, little cognisance has been taken of earlier parallel developments in New Zealand, despite the fact that marked similarities exist between the Australian and New Zealand local government systems. This paper seeks to remedy this latter neglect by outlining the municipal reform process in New Zealand and attempting to draw some lessons applicable to Australian regional, rural and remote councils.

The paper itself is divided into three main parts. Section 2 provides a synoptic outline of the legislative foundations of New Zealand local government as well as its structure, functions and finances. Section 3 attempts to draw various lessons from the New Zealand experience that seem applicable to contemporary Australian local government. The paper ends with some brief concluding remarks in section 4.

2. Nature of New Zealand Local Government

New Zealand is a centralized unitary system of government with all legislative power vested in the national government. Accordingly, local government is thus entirely a statutory creature of the central government with no formal constitutional standing, with its existence depending on legislation that can be amended or revoked at any time by the national Parliament. At present, the statutory basis for local government in New Zealand is the Local Government Act 2002, in conjunction with the Local Government (Rating)

Act 2002 and the Local Election Act 2001, enacted as the culmination of extensive local government reform in collaboration with the national municipal representative body Local Government New Zealand. This legislation has presaged a new era for local governance in New Zealand.

The Local Government Act 2002 specifies the purposes of local authorities, enumerates the powers of municipalities, the manner in which these powers can be discharged, enhances the accountability of councils, and enables local government to play a broader role than the previous legislative regime. An important aspect of the Act is that it provides New Zealand municipal authorities with a power of general competence for the first time in their history. Although not a “pure” power of general competence, it nonetheless implies that “under a power of general competence, local government can do anything that is not expressly forbidden by law or given exclusively to another organization” (Palmer and Palmer, 2004, p.250). A municipal authority can thus undertake any activity or business and enter into any transaction; it has full powers, rights and privileges to carry out its role, subject to the provisions of the Local Government Act 2002, other enactments and laws; and territorial authorities and regional councils must exercise their powers primarily for the benefit of their own spatial regions.

New Zealand local government currently consists of twelve regional councils and 74 territorial authorities that are subdivided into fifteen city councils and 59 district councils (Local Government New Zealand, 2004). At a more detailed level, local authorities can be classified into four categories: Territorial authorities (TLAs), regional councils,

community boards, and ad hoc bodies. Territorial authorities comprise fifteen city municipalities with populations in excess of 50,000 residents and 59 district councils that deliver various conventional local government services. Twelve regional councils, with an average population of some 286,000 people, perform a largely regulatory role. There are also 159 community boards affiliated to territorial authorities to form a link between these authorities and the local community. Ad hoc bodies consist of 24 licensing trusts, administering alcohol outlets and an array of specialist organizations, such as Infrastructure Auckland and the Otago Museum Trust Board.

In general terms, “local government provides waste management, water, local roads, land management, parks, libraries, and other local infrastructure and public goods” (Kerr, Aitken and Grimes, 2004, p.1). It does not provide either education or health services. New Zealand local government thus has a rather narrow focus on “services to property” along similar lines to Australian local government in comparison with the much broader “services to people” role of American, British, and Canadian local authorities. It is possible to identify sixty distinct functions performed by local government in New Zealand. For analytical convenience, Bush (2003, p.163) has grouped these functions into six main categories:

Control of nuisances: In this role, municipal authorities oversee a broad range of activities, including animal and plant pests, litter, noise, pollution, refuse, and sewerage.

Regulation of specific activities: Numerous issues require local government regulation, such as alcohol distribution, traffic control, dangerous materials, swimming pools, and waterways.

Planning: This complex and often controversial function is administered under the Resource Management Act 1991 and deals with the management of the natural and physical environment through the planning process.

Community improvement: Territorial bodies are charged with improving the communities they represent through economic development (such as land subdivision and tourism promotion), entertainment and recreation (like libraries and parks), funding selected community projects and centres, roads and sidewalks, and urban renewal schemes.

Social welfare: To a limited degree, TLAs are involved in some social welfare programs, like public housing for elderly people and childcare centers.

Public utilities: Most TLAs operate various utilities and trading organizations, including utilities such as airports, electricity companies, water services, and business ventures involved in alcohol trading and gambling.

Local government also has legal responsibilities for the 1840 Waitangi Treaty, especially in relation to the exercise of traditional Maori rights over natural resource usage and the administration of the Resource Management Act 1991 (Hayward, 2003). Despite the fact that recent legislative change has sought to enhance Maori representation in local government and local environmental decision-making, the implications of the Waitangi Treaty for local government remain unclear. It has been argued that “the relationship between Maori and local government is fascinating, frustrating, challenging, and increasingly important for both parties” (Hayward, 2003, p. xi).

The financial aspects of local government in New Zealand are closely proscribed by legislation, especially in terms of revenue-raising activities. In 2001, on average property taxes or rates accounted for 57 per cent of total income, various user charges, including fines and petrol taxes, contributed almost 20 per cent, intergovernmental grants and subsidies from the national government, largely aimed at road construction and maintenance amounted to about 10 percent, sundry commercial ventures yielded around 9 per cent, with the remaining income deriving from interest and investment dividends (Bush, 2003). These sources of revenue have three significant characteristics. Firstly, these average figures conceal a substantial variation between individual TLAs, particularly large urban centres, like Auckland City, which often have large utilities and trading operations. Secondly, reliance on intergovernmental grants is low by international standards; New Zealand local government is financially self-sufficient to a comparatively high degree. Finally, although rate income on property is conceptually straightforward as a means of taxing property, its application and calculation in New Zealand is exceptionally complicated. For instance, Bush (2003, p.164) has observed that “the bottom line for ratepayers can comprise as many as four different types of true rates (cents in the dollar), two uniform annual charges, and an impost for water and sewerage facilities supplied”. Moreover, “the rates themselves are normally calculated differentially, whereby different rates in the dollar are applied to similarly valued properties of different classification (for example, residential and commercial)”.

Expenditure patterns reflect the primary functions of New Zealand local government. Thus, for the average TLA around 52 per cent of outlays cover service provision, about

23 per cent accounts for staff costs, 20 per cent for asset depreciation, and some 4 per cent covered redemption and interest on loans.

Borrowing is permitted under the enabling legislation to finance capital projects since it is deemed reasonable to amortize the value of infrastructure over its lifetime. However, New Zealand municipalities are not allowed to use borrowing to fund current activities.

Bush (2003, p.161) has described local government in New Zealand as “rational, lean, generally uniform, and its basic features are easy to grasp”. In essence, “except for community boards, each unit is a separate legal entity known as a corporation, and as such is invested with certain legal rights”. Individual municipalities are separate legal corporations invested with certain legal rights and governed by elected councillors under a popularly elected mayor or appointed chairperson in the case of regional councils and community boards. Elections are conducted using the “first-past-the-post” (FFP) method, or alternatively, by means of the preferential single transferable vote (STV) method. In general, national party politics play a negligible role in municipal elections. Local government elections are nationally synchronized and held on the second Saturday in October every third year (New Zealand Official Yearbook, 2002).

While the legal powers of a municipality are formally vested in an elected council, considerable de facto authority is nevertheless enjoyed by the employees of TLAs, especially the chief executive officer (Dollery, 2003). This official appoints and manages paid staff members in terms of the Employment Relations Act 2000.

We have already noted that the Local Government Act 2002 ushered in a new era of local governance in New Zealand (Reid 2003). A critical component of the new legislative regime is a stress on accountability and performance by individual local government bodies, with important implications for the operations of councils. For example, municipalities must now prepare and publicize an annual plan, subject to extensive public consultation, and then report progress after the close of the fiscal year. Furthermore, the development of long-term plans is also obligatory. Similarly, councils can use a several different mechanisms to deliver their services, with more than two thirds of services previously delivered “in-house” conducted through self-contained Local Authority Trading Enterprises or contracted out to private firms.

3. Lessons for Australian Local Government

New Zealand can provide several useful insights into the current problems confronting Australian local government, especially regional, rural and remote councils as they contemplate alternative administrative, operational and structural models of local service provision (Boston 1996; Dollery and Wallis 2001). Not only has local government in non-metropolitan New Zealand already progressed through a decade of reform, but country council’s have also been active in developing a wide range of shared services initiatives. Moreover, these developments occurred against a backdrop of drastic structural reform and financially straitened circumstances reminiscent of present conditions in several Australian states and territories (Bush 1995).

During the late 1980's and early 1990's New Zealand went through a ruthless program that radically reduced the number of local authorities through council amalgamations (Barrett 1996). The primary purpose of local government consolidations was to provide administrative efficiencies rather than improved democracy (Kerr 1999). In general, amalgamation seems to have succeeded admirably from the perspective of enhancing administrative capability and operational efficiency, but it undoubtedly left the twenty smallest councils, with populations less than 20,000 residents, comparatively under resourced and over managed (McKinley 1998).

Despite these successes, major problems emerged in the political domain of New Zealand local government. In particular, the resultant disenfranchised communities were resentful and unrepentant. In essence, it can be argued that New Zealand local government finished with a mix of "too much and not enough". Put differently, the structural reform process left small rural communities feeling powerless while the cities were still governed by multiple councils that remained too fragmented. In essence, the reform program ignored the fact that local government needs to operate at two different levels to be effective: Efficacious local governance requires a coherent political identity representing distinct communities, but there also needs to be a structure for managing regional common interests. This can be achieved in one of two ways: from the "bottom up" or from the "top down". The New Zealand process consisted of a purely "top-down" approach and thus alienated grassroots constituencies.

In effect, the old community political structures and local sentiments never died with amalgamation process, but were simply transformed into community boards or community committees. As a consequence, old animosities generated by the bitterness surrounding forced amalgamation often surfaced and subsequently poisoned the relationships between the new council organizations and the old community structures.

What lessons emerge from this aspect of the New Zealand experience? It now seems clear that the “bottom-up” approach would have avoided many of these problems. Existing elected councils should have been retained, thereby placating strong local sentiment and an enduring “sense of place”, combined with some boundary redefinitions, a reduction in numbers of councillors and perhaps limited amalgamations where the local communities were impracticably small, but these should have been the exception rather than the rule.

In particular, in rural areas it is important to ensure that council’s remain structured around identifiably distinct spatial communities with an established and “lived” history. However, there is no corresponding justification for not merging the bureaucratic structures that underpin elected councils. Indeed, it can be argued that sound reasons exist for administrative amalgamations. For example, the bureaucratic organization supporting democratically elected political structures must be large enough to provide the full suite of services required of a modern administration. Moreover, there appears to be no good reason why a single administration cannot serve a number of different councils, provided

these councils fall within regions defined by common social, economic and geographic factors.

Existing administrations could either be merged or blended to provide a sufficient critical mass to employ an adequate skill base and simultaneously maintain the administrative systems necessary to effectively manage the assets and services provided to the community. However, in common with the earlier arguments on appropriate political structures, it is also logical for council administration to function at two distinct levels. There needs to be a local component that serves each local council and the local community complemented by an additional structure that provides overarching technical, professional and administrative services to the collective of co-operating councils.

The common or shared administrative structure could be overseen by a Board appointed by the collective of councils. The Board could be made up of the respective mayors or perhaps an appointee from each council or a panel of non-elected appointees with professional expertise that would function along the lines of a traditional board of directors in a private company.

It is argued that the main benefits flowing from an administrative structure of this kind would principally facilitate the reallocation and pooling of scarce resources. Some of the advantages accruing from an arrangement of this kind could include: Improved quality and range of service provision to the community; greater technical depth; better planning

and management systems; enhanced cross-council cooperation; and political influence in intergovernmental negotiations

However, the New Zealand experience suggests that amalgamation and even shared services are not “magic bullets” for expenditure reduction. In essence, administrative overheads do not constitute a substantial proportion of the total cost of municipal operations. Indeed, in smaller New Zealand shires the full cost of the top two tiers of council staff typically comprised only 15 per cent of a local authority’s total budget. With amalgamation this cost may be reduced, but it will obviously not disappear altogether. It follows that regardless of the form of structural reform, overall costs are unlikely to be significantly reduced.

However, administrative amalgamation can nevertheless significantly enhance local government capacity capability by both freeing up and pooling resources. In other words, it can secure “value for money” by spending the same funds more effectively. The model of local governance proposed here is based on identifying all of the functions that councils could perform in common or collectively and developing political and administrative structures that provide these functions most effectively. In particular, there are a range of activities that could be provided in common, most of which are “back office” and have little relevance to the primary political and policy functions of council or to the physical services provided by local authorities. Prime examples of this genre of functions encompass computer systems, accounting services, data management (especially filing storage and retrieval), geographic information systems, asset records,

various administrative services, and professional and technical services in planning and engineering

This model is founded on the notion that local government policy makers should examine how a private corporation would run a business delivering municipal services. Put differently, how should local government be run if it is conceptualised as a giant franchising operation? This analogy is apt since, in common with a franchise operation, each council is providing approximately the same services to the same class of consumers under the same set of legislative service obligations.

Given the conceptual parameters of the model, we need to ask how modern communications and computing technology assist councils in meeting current service provision objectives. If this argument is advanced in more concrete terms, it is immediately apparent that all the councils in any given Australian local government system could be served by a single computer bureau, a single call centre, a single phone system, a single repository for all property data, a single repository for council files and correspondence, a single electronic data retrieval system for all data, a single GIS system, a single accounting system and accounts structure, and a common base for LEP's, strategic and asset management plans. Considered in this manner, it is not so much a matter of cost savings but rather improved administration functions that would stem from pooling resources in this way. In other words, from the broad perspective of structural reform in Australian local government, we argue that administrative and not political amalgamation is required. Moreover, this model preserves local democracy and local

identity and at the same time operational effectiveness is enhanced. In so doing, it avoids the major pitfall experienced in New Zealand by avoiding the bitter animosities that invariably attend political consolidation.

However, in the light of the New Zealand experience, a crucial caveat must be added to these arguments: Most of the problems within contemporary local government arise more from a lack of sufficient funding and defects in the funding process rather than from endemic structural problems. Put differently, events in New Zealand have demonstrated that all the structural reform *per se* cannot resolve the problems of chronic under investment in physical infrastructure and insufficient cash flow for proper infrastructure maintenance. In other words, whereas administrative reform is urgently required in Australian local government, in common with New Zealand, the principal problem remains funding and not structure.

Despite this crucial caveat, the model of administration consolidation with political autonomy advanced in this paper still has many advantages. For instance, it need not involve major redundancies. Instead, the central issue hinges on effectively using existing resources rather than cost reductions to achieve improved outcomes. In this way, significant resources would be freed that could be applied to core service functions if local government administrations were to consolidate into few large specialised corporations each serving specific regions with a clear common community of interest. Staff made surplus by these arrangements could be combined into in-house technical and consulting groups. Spare general manager and second-tier management resources could

be applied to introducing new systems for asset management and administration, revising LEP's, amending strategic plans, and many other potentially avenues. Along analogous lines, maintenance employees could be pooled.

Secondly, defining the boundaries of these larger administrative areas need not be overly complex. For example, a model for these regional structures already exists in NSW in the form of groupings defined by the area consultative committees already established by the NSW state government.

Finally, from the perspective of implementing a model of this kind, it is argued that the respective state and territory Departments of Local Government must play an active role in forcing the pace of change. The New Zealand experience suggests that local government by itself is unlikely to be sufficiently vigorous.

4. Concluding Remarks

While the model proposed in this paper has the great advantage of drawing on real-world experience accumulated in the living laboratory of New Zealand local government, many of its conceptual foundations have already been explored in the literature on Australian local government and some of its elements put into operation by existing groups of Australian municipalities. For instance, in his *Secession: A Manifesto for an Independent Balmain Local Council*, Percy Allan (2001) advanced the proposition that local government should copy the franchising model used in the private sector. Similarly, the model suggested here shares many of the features of the joint board or area integration

structure first developed in Australia by Thornton (1995), more recently advocated by the NSW Shires Association (2004), and empirically evaluated by Dollery and Johnson (2006). Moreover, some characteristics of the model have been adopted by Australian councils, such as the Wellington-Blayney-Cabonne Alliance (Dollery and Ramsland 2005) and the Armidale Dumaresq-Guyra-Uralla-Walcha Strategic Alliance (Dollery, Burns and Johnson 2005).

The central thrust of the model of local government advanced in this paper is that structural reform programs should be crafted to ensure that councils should retain their existing political autonomy and independent character for three main reasons: Constituents possess a highly developed ‘sense of place’ and an enduring attachment to historical local government areas; political amalgamation generates resentment and bitterness that can overwhelm any benefits and poison new organizational arrangements; and the costs of the additional councillors typically involved represent a trivial proportion of total outlays anyway (Dollery 2004). By contrast, significant gains can be expected from selected (and not wholesale) consolidation of some administrative and operational functions to be run at a regional or state level. Since it is now well-established in the literature that relatively few municipal services exhibit significant economies of scale (Byrnes and Dollery 2002) and most economic benefits derive from scope economies and enhanced council capacity (Dollery and Fleming 2005), as a result, structural reform should focus on the model of joint provision instead.

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