

# 1. INTRODUCTION

## 1.1 INTRODUCTION

Since the early 1990s all local government jurisdictions in Australia have been subjected to reform by their respective state or territory. This thesis focuses on the 2008 Queensland forced amalgamation program by means of a case study of the Moreton Bay Regional Council (MBRC).

The Queensland Government's preference for forced amalgamations as an instrument for local government reform appears to be consistent with the approach previously taken by other Australian states. At the time of the Queensland mergers, New South Wales, South Australia, Victoria and Tasmania had experienced compulsory consolidation. These recent amalgamation programs are a continuation of the trend towards fewer local governments in Australia, as evidenced by an approximate 40% reduction in the number of local governments in Australia between 1910 and 2005, with Victoria experiencing the most dramatic reduction of approximately 61% (Dollery, Byrnes and Crase 2007a).

It is important to note that the Queensland local government structural reform process did not begin as an exercise in forced amalgamation. It began in 2005 as part of the national policy discourse at the time, which focused on sustainability in local government. In March 2005 the Local Government Association of Queensland (LGAQ) released the Discussion Paper *Size, Shape and Sustainability (SSS) of Queensland Local Government*. This Discussion Paper and the subsequent SSS initiative represented the Queensland local government sector's attempt to proactively address matters associated with local government sustainability, and to provide councils with an opportunity to investigate and ultimately implement reform rather than having change imposed on them by the state government.

Under the SSS initiative, councils were encouraged to investigate the following structural reform options: 'resource sharing through service agreements, resource sharing through joint enterprise, significant boundary changes and merger/amalgamation' (LGAQ 2006, p. 1:7). The SSS initiative was the first of its kind

in Australia as it was a cooperative effort between the Queensland Government and local councils to implement reform (Dollery, Wallis and Crase 2007). It appeared at the time that the SSS initiative was going to defy the trends of previous structural reform processes in other states in that forced amalgamations was not going to be the preferred method of reform.

However, in April 2007 the Queensland Government announced in its publication *Local government reform: A new chapter for local government in Queensland* that local government could not be reformed through the SSS initiative in a way that would ensure local communities received adequate services into the future. The view of the Queensland Government was that the reform necessary to improve councils' sustainability would not be achieved by the 2008 council elections, because the SSS initiative was voluntary and councils' level of commitment to the SSS initiative across the state was not consistent. Due to this apparent lack of progress, it was argued by the Queensland Government that, under the SSS initiative, reform of local government in Queensland could not be achieved until the 2012 council elections (Department of Local Government, Planning, Sport and Recreation 2007). The Queensland Government was of the view that reform was required in a much shorter timeframe; the state government therefore abandoned the SSS initiative and a program of forced amalgamations was employed through the establishment of the Local Government Reform Commission (LGRC).

The LGRC was formed under the *Local Government and Other Legislation Amendment Act 2007*. Contrary to the Queensland Government rhetoric at the time, the LGRC and the SSS initiative had very different policy objectives. The SSS initiative was a voluntary 'bottom-up' process that considered a range of reform options, whereas the LGRC was a 'top-down' approach that focused solely on involuntary amalgamations. Reaction to this policy reversal was unprecedented in Queensland local government history. The then President of the LGAQ, Councillor Paul Bell, noted that 'councils were in turmoil and disarray over the decision ... We're just feeling totally devastated' (Bell 2007, p. 3). These initial comments made by Councillor Bell were the first of many vocal, organised and emotive community responses to amalgamations throughout local communities across Queensland.

Amalgamations in Queensland received considerable attention in state and local press in both rural and urban areas of Queensland. It also attracted national media attention when both the Howard government and the opposition proposed to conduct a referendum in order to give communities ‘a say’ on council amalgamations in the lead up to the 2007 federal election.

In justifying this policy reversal, the Queensland Government stated that amalgamations in Queensland were required to improve the financial sustainability of councils in the medium to long term, and to promote greater collaboration in the policy areas of infrastructure provision and regional planning (Department of Local Government, Planning, Sport and Recreation 2007). In relation to the question of financial sustainability, Dollery, Wallis and Crase (2007), in their critical appraisal of this policy reversal, observed that financial sustainability continued to be a matter of concern for local government throughout Australia, even though almost all states had implemented structural reform programs. They went on to state that there was no evidence to suggest that amalgamation solved the complex problems associated with local government sustainability. In relation to greater collaboration in the policy areas of infrastructure provision and regional planning, Allan (2003) argued that these policy areas are principally the responsibility of state governments. He was of the view that relevant state departments should be setting the strategic direction in these policy areas with input from the local government sector. Councils would then be required to deliver services consistent with this strategic direction. Allan (2003) argued that the value of local government in any system of government is that it is small rather than regional, thereby enabling councils to be responsive to local needs.

As we have seen, the Queensland Government announced the cessation of the SSS initiative and formation of LGRC in April 2007. It took the LGRC just over three months to deliver its recommendations to the state government. These recommendations were accepted in their entirety and the number of councils in Queensland was reduced from 153 to 73 (LGRC 2007b, p.13). One of the distinguishing features of this reform process was the creation of large regional councils throughout the state. For example, just north of the capital city of Brisbane, MBRC was created from the amalgamation of Caboolture Shire Council, Pine Rivers Shire Council and Redcliffe City Council.

Table 1.1 summarises the key features of this newly formed MBRC compared with the previous local governments.

**Table 1.1 LGRC Summary of Council Areas**

New Local Government		Previous Local Governments		
Name	North Moreton Regional Council*	Caboolture Shire Council	Pine Rivers Shire Council	Redcliffe City Council
Class	Regional	Shire	Shire	City
Size	2,011 sq km	1,225 sq km	750 sq km	36 sq km
Population 2006	337,846	135,062	149,261	53,523
Population 2026	486,095	210,231	215,700	60,164
Electors 2007	214,114	84,955	94,035	35,124
Electoral arrangements	Undivided 12 councillors plus mayor	Divided 6 councillors plus mayor	Divided 10 councillors plus mayor	Undivided 7 councillors plus mayor
Electors per councillor excluding mayor	17,842	14,159	9,403	5,017
Total operating revenue financial year 2006	\$297 million	\$120 million	\$129 million (estimated)	\$48 million
Annual capital expenditure financial year 2007–2015	\$135 million	\$58 million	\$64 million	\$13 million
Total assets at 30 June 2006	\$3,178 million	\$1,274 million	\$1,439 million (estimated)	\$465 million
Debt at 30 June 2006	\$58 million	\$19 million	\$30 million (estimated)	\$9 million
Community equity at 30 June 2006	\$3,052 million	\$1,231 million	\$1,347 million (estimated)	\$474 million

Source: LGRC (2007a, p. 234).

\*Council name changed to Moreton Bay Regional Council.

Some interesting observations can be made from Table 1.1 about two of the key themes explored in this thesis: the creation of a more regional approach to local government in Queensland, and the impacts of amalgamation on local government representation.

First, the regional scale of MBRC is evident given its population size (third largest local government area in Australia behind Brisbane City and the Gold Coast) and

comparatively large geographical size (2,011 sq km) for a predominantly urban council.

Second, the creation of MBRC significantly altered local representation in some areas as MBRC's 'electors per councillor excluding mayor' is significantly higher (17,842) than the former Pine Rivers Shire Council (9,403) and Redcliffe City Council (5,017).

Finally, local representation was further affected, in that new internal boundaries for 12 divisions within MBRC were created and each division was to be represented by one

councillor. It is interesting to note that the LGRC recommended that MBRC be undivided for electoral purposes. However, this was subsequently changed by the Queensland Government.

MBRC was created within a context of severe community opposition, which was comprehensively reported in the media. For example, an article by Giles (2007, p. 9) noted that ‘an angry Redcliffe City Mayor and his councillors ambushed Local Government Minister Andrew Fraser yesterday as he made his first attempts to sell controversial amalgamation plans’, adding that ‘the mayor and councillors were furious Redcliffe will merge with bigger neighbours, Caboolture Shire and Pine Rivers Shire’. Along similar lines, Barrett (2007a, p. 3) observed that ‘the federal government yesterday bought into the “gloves off” stoush between councils and the State Government, offering taxpayers’ money to run referenda on forced council amalgamations’. However, ‘one council is not going to wait for a referendum to voice their disapproval’, with Redcliffe councillors and residents planning to ‘push a wheelbarrow more than 40km to Brisbane from 4am today’, with the object of delivering ‘petitions with 22,046 signatures of those opposed to the forced merger with Caboolture and Pine Rives from next March’.

Despite severe community opposition, MBRC was formed in 2008 and began the significant task of consolidating the operations of the three former councils. The size and complexity of this task cannot be overstated.

The aim of this thesis is to critically evaluate the various policy approaches to local government reform in Australia since the early 1990s, with a particular focus upon the use of involuntary amalgamation as a method of structural reform. This is achieved by examining the Queensland experience of structural reform and using MBRC as a case study to highlight the policy process and impacts of forced amalgamations from both a theoretical and a practical perspective. This examination occurs within the context of local government’s role in the Australian federal system of government and previous local government reform processes in Australia.

## 1.2 OUTLINE OF THESIS

This thesis consists of eight chapters. Chapter 2 establishes the context of local government in Australia. It critically reviews Australia's federal system of government and discusses the complex interplay between federal, state and local governments. This chapter introduces the key factors affecting local government sustainability in Australia, including fiscal stress caused by cost shifting, community expectations, limited revenue raising opportunities and the 'infrastructure crisis'. The chapter concludes by identifying four reasons why Australian local government is comparatively powerless, with particular reference to reform. These reasons are:

- Local government is not recognised as a political institution in Australia's federal system of government in the Constitution;
- The legal status of local government in Australia means that it is wholly subservient to the states;
- Australian local governments lack the financial autonomy to deliver the products and services that are expected by communities due to cost shifting and limited funding options for local government; and
- Australian local government continues to face many challenges in developing and maximising its political influence and participation in discussions on a range of policy issues at the state and national levels.

Chapter 3 explores in detail the concept of local government sustainability by analysing the national policy context of local government reform through the prism of the Commonwealth Grants Commission's (2001) *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, the House of Representatives Standing Committee on Economics, Finance and Public Administration's (2003) *Rates and Taxes: A Fair Share for Responsible Local Government (the Hawker Report)* and PriceWaterhouseCoopers' (2006) *National Financial Sustainability Study of Local Government*. It also considers the efforts of various state governments to address the same issue through the Financial Sustainability Review Board's (2005) *Rising to The Challenge: Towards Financially Sustainable Local Government in South Australia*, the Independent Inquiry into the Financial Sustainability of New South Wales Local Government's (2006) *Are Councils Sustainable? Independent Inquiry into the Financial Sustainability of NSW Local Government*, the Western Australian Local Government

Association's (2006) *Systemic Sustainability Study, In Your Hands: Shaping the Future of Local Government in Western Australia, Final Report*, and the Local Government Association of Tasmania's (2007) *Review of the Financial Sustainability of Local Government in Tasmania*. This chapter uses the local government reform typology developed by Dollery, Garcea and LeSage Jr (2008) to analyse the recommendations of these inquiries and to discuss the policy implications of these recommendations for local government in Australia. As a postscript to this chapter, a brief commentary is provided on the implementation of these recommendations as well as a description of some further inquiries into local government that have occurred at the state level in Tasmania, New South Wales and Western Australia including the Southern Tasmanian Councils Authority's *Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania* (2011), the Property Council of Australia's (Tasmanian Division) *Deloitte Access Economics Report On Local Government Structural Reform In Tasmania* (2011), the Western Australian Metropolitan Local Government Review Panel's *Metropolitan Local Government Review In Western Australia* (2011), and New South Wales Government's *Independent Local Government Review In NSW* (2013).

Chapter 4 conducts a review of the literature with a focus on the theoretical perspectives and empirical evidence relating to structural reform of local government. Experience shows that when state governments determine that structural reform of local government is required, they are inextricably drawn to forced amalgamations. The chapter contains a critical evaluation of the reasons used in support of this policy option from both conceptual and empirical perspectives. Typically, these reasons focus on local government efficiency and include economies of scale, densities and scope, and increased strategic capacity. Also considered is the impact of larger council areas on local government effectiveness by making use of concepts such as local government responsiveness, participation and citizen satisfaction.

Chapter 5 represents the first element of the Queensland local government structural reform narrative. It begins with a critical examination of the policy context, rationale and proposed process of the abovementioned SSS initiative and its focus on local government sustainability. The chapter then considers the demise of the SSS initiative, the establishment of the LGRC and the new focus of the reform: involuntary

amalgamations. It also proposes an explanation for this policy reversal by suggesting that early in the SSS initiative the Queensland Government realised that this initiative was not going to deliver outcomes within the prescribed timeframes that were consistent with its real agenda: achieving a more regional approach to local government by creating councils with enhanced strategic capacity to operate at this level.

Chapter 6 continues this narrative using the MBRC case study. It includes background information on the former three local government areas and the newly formed MBRC. This chapter describes and critically evaluates the process adopted by the LGRC in creating MBRC and other amalgamated councils across Queensland, and the LGRC's rationale for creating MBRC. It then highlights that council amalgamations have imposed significant changes on participating councils and their residents. Newly amalgamated councils were given the difficult task of managing these changes appropriately and in the best interests of local communities so that the most important issues were addressed as a matter of priority. Many of these changes were complex and had significant financial, operational and political implications on newly formed councils. The chapter documents these implications and demonstrates that, in some instances, amalgamations have had far-reaching impacts. This is achieved by discussing two key projects undertaken by MBRC as part of this change process: creating a consolidated rating policy and the new corporate governance framework. An interesting postscript to this chapter is that MBRC continued to face structural and functional reform challenges post-amalgamation, demonstrating that local government reform may continue to occur for some Queensland councils.

Chapter 7 represents the final part of the Queensland local government structural reform narrative by discussing two further projects undertaken by MBRC resulting from the amalgamation: a new corporate approach to asset management and land tenure. These projects provide examples of how amalgamation has the potential to enhance the strategic capacity of councils and to create opportunities for improved services delivery. The chapter documents how the size of MBRC enabled it to allocate the necessary financial resources and staff expertise in developing a best-practice approach to asset management. MBRC was able to invest in new IT software and systems that have enabled it to provide, maintain and replace community assets in an efficient way. This



chapter also demonstrates how council amalgamations have created an opportunity for MBRC to consider the best way to administer council's land tenure services.

The discussion in chapters 6 and 7 of these projects undertaken by MBRC reveals the various complex political and operational problems resulting from involuntary amalgamations. Notwithstanding these problems and their associated costs, the projects also demonstrate that the establishment of newly amalgamated councils has provided unique opportunities to establish new policies, processes, practices and systems with a view to improving local government efficiency and effectiveness in service delivery. The thesis ends with some concluding remarks in Chapter 8.



## **2. LOCAL GOVERNMENT IN THE AUSTRALIAN FEDERATION**

### **2.1 INTRODUCTION**

A critical evaluation of public policy in relation to local government reform should begin with an understanding of each level of government in the Australian federation. Of particular interest for this thesis is local government's relationship with its state and federal counterparts. The nature of these relationships forms the context from which local government reform policy has been formulated and implemented throughout the country. The various dimensions of these relationships are worthy of consideration from historical, legislative, functional, financial and political perspectives. Examining these relationships demonstrates the relative powerlessness of local government in the Australian federation, which explains in part why local governments have been the subject of, or involuntary participants in, the reforms agendas of the state and federal governments.

This chapter considers the complex interplay between federal, state and local governments in Australia, the ongoing evolution of local government and the key factors affecting local government sustainability in Australia. Against this background, local government structural reform is then briefly considered and it is suggested that these imposed reform programs can sometimes be considered contrary to the democratic principles that form the basis of government in Australia.

The chapter consists of six main parts. Section 2.2 defines a federal system of government and discusses the economic benefits of this system, briefly describes the history of the Australian federation, identifies in general terms the strengths and weaknesses of this system, discusses inter-governmental relations, fiscal federalism and constitutional change in Australia, and considers how all of these factors affect local government. Section 2.3 explores the role and responsibilities of local government in Australia from both historical and contemporary perspectives, including the history of local government in each state, constitutional recognition and the diversity of local government. Section 2.4 explores the legislative and financial nature of the relationship between local, state and federal governments, including the legislative base for local government in each of the Australian states, and fiscal stress caused by cost shifting,

community expectations, limited revenue-raising opportunities and the ‘infrastructure crisis’. Section 2.5 considers how these constraints contribute to the ‘powerlessness’ of local government in Australia in relation to state governments. The chapter ends with some brief concluding remarks in Section 2.6.

## **2.2 THE AUSTRALIAN SYSTEM OF GOVERNMENT**

### **2.2.1 INTRODUCTION TO THE FEDERAL SYSTEM OF GOVERNMENT**

The concept of federalism was first articulated as a model for modern government by the founders of the United States through the *Federalist Papers*. Federalism was seen as a way of establishing a ‘compound republic’ that ‘added the national advantages of largeness to the local advantages of smallness while at the same time ensuring the democratic character of both’ (Galligan 1995, p. 39). Various definitions of federalism have since been developed.

Wheare (1963, p. 10) contended that federalism is ‘the method of dividing powers so that the general and regional government are each, within a sphere, co-ordinate and independent of the other’. Riker (1975, p. 101) observed that a federation is ‘a political organisation in which the activities of government are divided between regional governments and a central government in such a way that each kind of government has some activities on which it makes final decisions’.

Sawyer (1976, p. 1) propounded a definition of federalism comprising six main components:

1. A federal system consists of a national state with institutions that exercise sovereignty centrally over a country.
2. The country is made up of a number of states. These are geographical areas that have their own government.
3. Government responsibilities are shared between the national and state governments ‘in such a way that each government has a direct impact on the citizens in its own area’.
4. The powers of the national and state governments are defined through a written constitution that ‘has a fair degree of rigidity, meaning it is not easy to amend’.

5. The constitution sets out rules that are applied when disagreement exists between national and state governments in relation to which level of government has the authority over a particular issue. The constitution is considered the final authority on such matters.
6. The application of the constitution to resolve disputes is the responsibility of a judicial body separate from both levels of government.

There are two main categories of federalism. Co-ordinate federalism refers to a situation whereby the national and state governments operate independently of each other and have equal legal status. This type of federalism is not easily achieved in practice since roles and responsibilities of each tier of government overlap and inevitably some dependencies exist. By contrast, co-operative federalism focuses on the national and state governments working in partnership in fulfilling their responsibilities. This model of federalism focuses on negotiation, political bargaining and, on occasions, conflict between the two tiers of government (Hughes 1998). A third category of federalism is known as competitive federalism. Under this model, 'state and local officials determine their own policies in part based on competition with surrounding communities' (Volden 2002, p. 352). This competition may have both positive and negative consequences. For example, it has been suggested that in the United States, whilst competitive federalism encourages a 'more efficient representation of community interests, lest the community lose residents, businesses, and part of its tax base to competitors, [this same] competition may lead to an undersupply of welfare benefits ... with states cutting their benefits ... to avoid becoming welfare magnets' (Volden 2002, p. 353).

#### 2.2.2 ECONOMIC BENEFITS OF THE FEDERAL SYSTEM OF GOVERNMENT

Inman and Rubinfeld (1997) argued that the federal system of government provides an effective means to allocate national resources efficiently. This argument is based on the 'correspondence principle', which states that 'the jurisdiction that determines the level of provision of the public good includes precisely the set of individuals who consume the good' (Oates 1972, p. 34). This means that a public good ought to be provided by the level of government whose constituents are those people who will use the public good, and that this level of government will be in the best position to be most responsive to demand (Dollery and Wallis 2001, pp. 17–18). When this principle is

applied in conjunction with the fact that people benefiting from the delivery of public goods vary in number and location depending on the public good concerned, the economic rationale for the federal system becomes evident. Where there is a significant ‘spillover’ of cost in delivering a public good to people who do not receive any benefit, or vice versa, then it can be argued that a federal government has a role to play in providing that public good on efficiency grounds. Public goods such as national defence would meet this criteria, whilst goods such as ‘education, police and fire protection, sanitation, recreation, and even public health can be produced efficiently by relatively small communities’ (Inman and Rubinfeld 1997, p. 3).

However, despite its elegance, this conceptual argument for federalism does not easily transpose into practice. For instance, differences of perception can exist in relation to the nature of a public good. Musgrave (1997, p. 65) contended that ‘it may seem that education and elementary education in particular are eminently local functions. However, although education is conducted locally, its quality is also of national concern’.

Another fundamental argument for the economic efficiency of a federal system of government is built on Tiebout’s (1956) assumption that public goods are best delivered at the local level and that competition is established between small governments as people ‘shop’ for the governments that offer ‘their preferred package of services, taxes, and regulations’ (Inman and Rubinfeld 1997, p. 44). Where ‘spillovers’ occur this competition between small governments may promote inefficiencies, as the full costs and benefits of providing a public good are not defined or reflected in the price of this public good. In these instances a federal government ought to be allocated the task of providing public goods associated with these ‘spillovers’. There are practical problems associated with this approach; historically state governments in federal countries such as the United States and Australia did not ‘follow the blueprints of spatial efficiency and the number of states is not easily adjustable to meet that standard’ (Musgrave 1997, p. 65).

Qian and Weingast (1997, p. 83) expanded on the theoretical economic benefits of federalism by arguing that federalism provides an answer to the question: ‘How do governments commit to providing efficient public goods and preserving market

incentives?’ According to these authors, this is achieved by aligning ‘incentives of political officials and citizen welfare’. The basic premise of this argument is that economic benefit for a society as a whole, and therefore citizen welfare, is maximised when resources are used efficiently, and efficiency is best achieved through a competitive, unregulated market. Therefore a government should not inhibit market activities and should act only in response to instances of market failure to provide ‘goods and services either at all or in an economically optimal manner’ (Dollery and Wallis 2001, p. 22). Qian and Weingast (1997, p. 83) identified two factors as potential inhibitors to this optimal situation: ‘state predation’ and the ‘soft budget constraint’ problem. State predation occurs when ‘the government is tempted to take away too much income and wealth generated by future success, individuals [therefore] have no incentives to take risks and make effort today’. Soft budget constraint refers to a situation whereby if a government is ‘tempted to bail out failed projects or continue costly, inefficient public programs, individuals have no incentives to avoid mistakes’ (Qian and Weingast 1997, p. 83).

In order to demonstrate how federalism can limit the occurrence of these inhibitors through providing incentives for government decision-making that aligns with this definition of citizen welfare, the concepts of ‘allocation of information and authority’ and ‘competition’ within a federal system are applied. The decentralisation of government inherent in the federal system means that the federal government has less information and limited authority. Qian and Weingast (1997, p. 84) contended that this ‘increases the credibility of [the federal government’s] commitment’ to ‘preserve markets’. This devolution of power and responsibility to state governments generates an incentive for state governments to protect this autonomy and this has a limiting effect on the activities of the federal government, including taxation. Qian and Weingast (1997, pp. 84–85) described how the federal system of the United States limits the occurrence of soft budget constraints by constraining the borrowing capacity of the states through various means, such as the issuing of bonds ‘for capital improvement, not general consumption’, which prevents states from ‘endlessly bailing out ailing enterprises and from expenditure levels beyond their means’. However, the federal government has direct access to the central bank, thereby increasing the risk of softer budget constraint at the national level.

In relation to the concept of competition, Qian and Weingast (1997, p. 85) built on Tiebout's (1956) views concerning competition between small governments to suggest that 'jurisdictional competition serves as a disciplinary device to punish inappropriate market intervention by lower government officials'. For example, business and investment will be attracted to government jurisdictions that have low taxation, and this competition for 'mobile resources' between jurisdictions provides another incentive for government decision makers to not inhibit market activities in this way.

### 2.2.3 AUSTRALIAN FEDERALISM

The Australian co-operative federation is based on the federal models of the United States, Switzerland and Canada and is one of 'the oldest continuing federal systems in the world' (Dollery 2002, p. 26). The following characteristics were adopted from the federal system in the United States:

- Australia's two levels of government are each directly accountable to the people;
- The division of powers has been determined by articulating the responsibilities of the national government and leaving the residual responsibilities to the states;
- Australia has a strong Senate as part of a two-house legislature, including the House of Representatives; and
- The High Court interprets and presides over disputes relating to the Constitution.

The Australian referendum process was drawn from the Swiss model and the approach for combining federalism and responsible government was modelled from Canada (Galligan 2007, p. 202). Historically, British settlers determined that federalism should be a key feature of any system of government in Australia, primarily because the politicians of the various self-governing colonies in Australia recognised the need for a national government, and they wanted to preserve and protect the power and autonomy they enjoyed as separate colonies. Federalism provided for such an arrangement and a Constitution was developed outlining the division of powers between the newly formed federal government and the state governments of Australia.

The transition from self-governing colonies into a federal nation occurred on 1 January 1901 through the Imperial *Commonwealth of Australia Constitution Act*. Prior to this, colonial leaders attended various federal conventions to progress the development of the



Australian federation and to develop a draft Constitution. Ultimately a Constitution was agreed to by the colonies of New South Wales, Victoria, South Australia, Queensland, Tasmania and Western Australia through referendum (Parliament of Victoria 1998).

#### 2.2.4 STRENGTHS AND WEAKNESSES OF THE AUSTRALIAN FEDERAL SYSTEM

In general terms as a system of government, a number of strengths and weaknesses can be identified in relation to the Australian federation. Maddox (2000) argued that a federal system enables government to remain 'close to the people' since each state operates the government from a state capital city rather than all government being located in Canberra. Similarly, it prevents the national government from being able to exercise power over all of Australia on all matters, thereby reinforcing the notions of decentralised democracy and limited government.

Furthermore, federalism provides a vehicle for regional development since funding from the national government is passed on to the states for use in regional areas and protects the diversity that exists between the states. Federalism and its associated multiple political and legal institutions also provide more opportunities for people to become involved in the political system. It is suggested that these opportunities for involvement in the political process promote innovation, as new ideas and concepts can be introduced to the system at different levels and in different states. For example, a state may develop and implement best practice in a particular policy area; this can then be applied in other states.

The main weakness of the federal system in Australia is duplication of political institutions and activities. Former prime minister Hawke (cited by Maddox 2000, p. 154) noted that 'what is unique about us is that we need our fourteen Houses of Parliament and eight governments'. Mathews (1983) highlighted the duplication that comes from a lack of policy co-ordination between the national and state governments on a range of issues, including transport, Indigenous issues and the environment. This duplication results in inefficiencies in public sector bureaucracies. It is also suggested that a further weakness of the Australian federal system is competition between the states that can lead to decision-making that is not in the best interests of taxpayers. Maddox (2000, pp. 154–155) provided an example of this problem, whereby a state, in

its attempt to attract a mining company to promote economic development within the region through offering ‘cheap electric power, concessional tax rates and infrastructure assistance’, may not place the proper emphasis on critical environmental considerations.

Maddox (2000, p. 156) also stressed that ‘policy vacuums’ exist in relation to issues where the federal system has allowed ‘indecision, inaction and buck-passing’ between the national and state governments. This issue has both political and structural components. In Australian politics, at any given time there will be a range of issues on which the national and state governments, for various political reasons, will not be prepared to act. In some cases there may be genuine disagreement about the best response. This situation is able to exist in Australia because the concept of ‘divided responsibility’ forms part of any federal structure. Parker (1980, p. 17) observed that ‘the mere division of powers between federal and state parliaments ... diffuses responsibility between sets of ministers at different levels ... and frustrates attempts in any one parliament to hold its ministers accountable’.

#### 2.2.5 INTER-GOVERNMENTAL RELATIONS

Since many of the abovementioned weaknesses associated with the Australian federation relate to the relationship between the national and state governments, it is important to discuss this aspect of federation in more detail. Summers, Woodward and Parkin (2002, p. 89) maintained that the division of power between the federal and state levels of governments in Australian ‘is constantly changing’. These changes can be clearly seen when examining the role of the High Court in federal–state relations, in an examination of fiscal federalism and in the interpretations of federalism by federal governments.

##### High Court of Australia

The High Court was established through Section 71 of the Constitution. A component of the High Court’s role is ‘to interpret and apply the law of Australia; to decide cases of special significance including challenges to the constitutional validity of laws’ (High Court of Australia quoted by Singleton, Aitkin, Jinks and Warhurst 2003, p. 45). This role of the High Court is known as ‘judicial review’. According to Hall (2000, pp. 143–144), the nature of the High Court’s rulings in cases of judicial review can be

categorised into four distinct periods. From 1903 until 1920, the Court attempted to preserve the division of powers between the federal and state governments as per the Constitution, reflecting the 'intentions of the drafters of the Constitution'. Between 1920 and 1942, the High Court adopted an approach to interpreting the Constitution known as 'legalism ... [wherein] the Constitution should be read according to its plain meaning'. This led to an increase in the powers of the federal government. From 1942 to 1983, the *status quo* in the division of power was maintained, while from 1983 the High Court 'self-consciously reconstructed its role'. These most recent changes are known as 'the new politics of the High Court ... judicial activism or judicial adventurism'. This 'new politics' has been defined by Gelber (2004, p. 333) as 'a combination of expanded institutional powers and innovative jurisprudence', reflecting the reality that the High Court is both a political and legal institution. Despite these periods, in general terms Galligan (1995, p. 170) stated that 'according to most commentators, the dominant pattern in the High Court's interpretation of Australian federalism has been the ever increasing centralisation of power at the national level of government'.

### Fiscal Federalism

In addition to the strengthening of the federal government through judicial review, the changing nature of the financial relationship between the federal and state governments over time has caused increased dependency by the states on the federal government for funds. This dependency also exists in relation to local government and has similar implications for both state and local governments.

Financial dependency can be understood using the concepts of horizontal and vertical fiscal imbalance. Historically, horizontal fiscal imbalance has been a cause of fiscal stress for state and local governments in Australia. This concept relates to the different capacity of state and local governments to raise revenue and the different costs of delivering services. Dollery (2002, p. 27) noted that this issue 'was initially addressed by special grants to financially distressed state and local governments and from 1933 onwards through equalisation procedures administered by the Commonwealth Grants Commission' in relation to financial support provided by the federal government. Through the equalisation of grants paid to state and local governments, not only has the

issue of horizontal fiscal imbalance been successfully addressed, but payments made are also free of party politics and without bias.

The more contemporary issue of vertical fiscal imbalance relates to the imbalance in revenue-raising powers compared with expenditure responsibilities within the Australian federal system of government. Dollery, Crase and Johnson (2006, pp. 36-39) highlighted that 'the federal government raises more revenue than it needs to meet its expenditure obligations, while the reverse is true for lower levels of government, both state and local' (Dollery, Crase and Johnson 2006, pp. 36–39). Dollery et al. (2006) went on to observe that 'the financial dominance of the Commonwealth government and the lack of vertical balance between tiers of government is undoubtedly the most heavily criticised aspect of the Australian federal system'.

Worthington and Dollery (2000, p. 26) quantified vertical fiscal imbalance by identifying that 'in terms of overall public sector revenue-raising capacity in Australia, the Commonwealth raises approximately 75 per cent, the states around 21 per cent, and local government about 4 per cent. Accordingly, in the Australian federal system, own-source revenues as a percentage of own-purpose outlays (an indicator of vertical fiscal imbalance) are 142 per cent for the Commonwealth, 50 per cent for the states, and 80 per cent for local government'.

Vertical fiscal imbalance in Australia has resulted in state and local governments having limited capacity to raise their own revenue. This can be dealt with using the following strategies: 'Expenditure responsibilities can be transferred between the different tiers of government; taxation powers can be re-allocated; inter-governmental grants can be introduced to redistribute funds, and institutionalised revenue-sharing arrangements can be developed' (Dollery 2002, p. 27). However, some of these solutions, such as inter-governmental grants, are not considered to be economically efficient or effective. For example, Dollery, Stewart and Worthington (2000, pp. 18–19) argued that, because grants 'have zero opportunity cost from the perspective of the states and local government, there is little incentive to expend these funds judiciously... [and] the Commonwealth government does not have sufficient incentives to limit its own expenditure'. Furthermore, the limits placed on state and local governments in terms of revenue-raising options mean that these levels of government must rely on

‘economically inefficient and distortionary taxes’ such as costly property-based taxes and charges to augment grant funds from the federal government (Dollery et al. 2000, p. 18).

However, labelling vertical fiscal imbalance as a criticism of the federal system may be ill-considered. Dollery (2002, p. 29) noted that many examples of both democratic federal and unitary systems of government have decentralised fiscal responsibilities. Therefore it can be argued that vertical fiscal imbalance should be seen as an issue ‘generic to all forms of democratic government that embody a division of powers’.

The nature of vertical fiscal imbalance in Australia and the associated government responses have evolved over time. Dollery (2002) provided an historical account of this evolution, as summarised in Table 2.1.

In relation to the vertical fiscal imbalance discussed in Table 2.1, Dollery, Stewart and Worthington (2000, p. 18) summarised the introduction of two main types of federal grants in Australia aimed at overcoming this issue: General Purpose Payments (GPPs) and Specific Purpose Payments (SPPs). GPPs are provided to state and local governments and can be used for any purpose. SPPs are funds provided for a specific purpose as specified by the federal government and are allocated in accordance with the policy and procedures of the Commonwealth Grants Commission. Dollery et al., (2000, p. 18) demonstrated that between 1969/70 and 1994/95 SPPs rose relative to GPPs and that ‘state and local governments ... experienced a relative decline in Commonwealth government grant income and ... raised increasing proportions of their income from own source income’. This had two main implications for state and local governments: reduced autonomy in spending federal grant funds and the increased reliance on property taxes. It is interesting to note that SPPs are ‘much more amenable to party-political calculation, and thus could be employed to maximise electorate support’ (Dollery and Worthington 1996, p. 81).

**Table 2.1 Evolution of Vertical Fiscal Imbalance in Australia**

Time Period	Description
1901–1909	The origins of vertical fiscal imbalance could be found in the new Australian Constitution when the states gave up their key income source in custom duties. However the federal government was required to return three-quarters of these funds to the states and any ‘surplus’ revenue.
1910–1918/19	Payment of ‘surplus’ funds to the states ceased and federal per capita payments to the states commenced. The federal government introduced an income tax (the states also charged an income tax).
1919/20–1932/33	Special federal grants to states commenced and issues began to emerge with both state and federal government charging income tax. Per capita payments ceased and an annual payment to the states was introduced. During this period the Australian Loan Council was established to coordinate state and federal borrowing. The states experienced difficulty raising adequate funds to provide public goods and services whilst the federal government was looking to new ways to spend excess funds.
1933/34–1941/42	The Commonwealth Grants Commission was established to oversee the payment of funds to the states and to begin establishing the equalisation concept.
1942/43–1946/47	In 1942 federal payments to the states became more significant mostly due to the introduction of a single federal income tax system. This system has survived several High Court challenges and continues to exist to this day.
1947/48–1958/59	Vertical fiscal imbalance significantly increases due to the single federal income tax system the federal government’s dominant role in the Australian Loan Council. In 1948/49 the federal government was responsible for 88% of all taxes, compared with 8% for state and 4% for local government.
1959/60–1971/72	Three types of federal grants were being used to address vertical fiscal imbalance during this time: Financial assistance grants, special grants and specific purpose grants. There was an increase in the use of specific purpose grants from 23.7% in 1960/61 to 31.4% in 1971/72, demonstrating an increased emphasis on providing funds to the states to be used in supporting particular policy initiatives of the federal government thereby reducing the autonomy of the states.
1972/73–1975/76 (Whitlam government)	The proportion of specific purpose grants continued to increase during a time of reform in the Australian federation. The trend existed within a broader trend of increased public sector expenditure.
1976/77–1982/83 (Fraser government)	Federal funding to the states was decreased as did state reliance on specific purpose grants. Fixed income tax revenue sharing arrangements were developed. The net effect was that state governments were in a worse position financially than under the Whitlam government.
1983/84–1995/96 (Hawke and Keating governments)	Federal funding to the states continued to decrease from 9.5% of national product in 1982/83 to 6.7% in 1994/95. Specific purpose payments were progressively replaced with general revenue funds, which provided greater autonomy for the states. Tax sharing arrangements were abolished.
1996/97–2000 (Howard government)	In 1996 there was increase in the financial assistance grants however the key reform was the implementation of the Goods and Services Tax (GST). The states now received funds from the GST and in return were required to reform state-based tax systems through reducing the number of taxes charged.

Source: Adapted from Dollery (2002, pp. 33–37).

### Fiscal Federalism and Local Government

In relation to local government, Worthington and Dollery (2000, p. 29) noted that ‘Commonwealth assistance to local government did not effectively commence until 1974/75 when untied grants were distributed on the basis of recommendations made by

the Commonwealth Grants Commission'. The nature of these grants has evolved over time since their commencement in 1974.

From 1974/75 the Commonwealth provided untied grants 'in line with the Labor Party's policy of providing assistance to local government to promote equality among regions, and to ensure adequate services and the development of resources at local and regional levels' (Webb 2001). In accordance with the *Grants Commission Act 1973*, regional bodies were established to represent a group of councils from a particular area and to accept applications for financial assistance. Applications for funding from local governments were assessed by the Commonwealth Grants Commission (Webb 2001).

From 1976 until 1984, under the Fraser government's 'new Federalism' policy, income tax revenue was shared between all tiers of government, including local government. In 1976/77, under the *Local Government (Personal Income Tax Sharing) Act 1976*, local government was allocated 'the equivalent of 1.52 per cent of net personal income tax collections in the previous year' (Webb 2001). This allocation was increased to 1.75% in 1979/80 and to 2.0% in 1980/81. Distribution of these funds was the responsibility of the Local Government Grants Commissions in each state. This tax sharing arrangement was in place until 1984/85 (Webb 2001).

The incoming Hawke government 'dropped these arrangements, arguing that the economy could not afford tax sharing with the States and local government' (Webb 2001). In 1985/86 Commonwealth funding of local government was increased 'by the change in the Consumer Price Index (CPI) and an additional two per cent growth factor over the 1984/85 level' (Webb 2001). In April 1986 the Commonwealth Government announced that the model of Commonwealth funding of local government would change from 1986/87 onwards and that financial assistance grants would be used instead of 'personal income tax sharing' (Webb 2001).

Since the first Local Government (Financial Assistance) Act was passed in 1986, these federal inter-governmental grants provided to local government have been referred to as Financial Assistance Grants (FAGs). There are two components to local government FAGs: 'general purpose grants', which councils are able to expend 'in accordance with local priorities', and 'identified local road grants' for the maintenance of local roads

which are also untied as ‘councils are not specially required to spend them on local roads (DOTARS 2007, p. 28). The grants are paid to local government through the states from the Commonwealth Grants Commission to Local Government Grants Commissions in each state under the current Local Government (Financial Assistance) Act 1995. Table 2.2 shows the amount of funding provided to the states in FAGs from 1974/75 to 2009/10.

**Table 2.2 Financial Assistance Grants from 1974/75 to 2009/10**

<b>Year</b>	<b>General Purpose Grants (\$)</b>	<b>Local Road Grants (\$)</b>	<b>Total Grants (\$)</b>
1974/75	56,345,000	n/a	56,345,000
1975/76	79,978,000	n/a	79,978,000
1976/77	140,070,131	n/a	140,070,131
1977/78	165,327,608	n/a	165,327,608
1978/79	179,426,870	n/a	179,426,870
1979/80	222,801,191	n/a	222,801,191
1980/81	302,226,347	n/a	302,226,347
1981/82	352,544,573	n/a	352,544,573
1982/83	426,518,330	n/a	426,518,330
1983/84	461,531,180	n/a	461,531,180
1984/85	488,831,365	n/a	488,831,365
1985/86	538,532,042	n/a	538,532,042
1986/87	590,427,808	n/a	590,427,808
1987/88	636,717,377	n/a	636,717,377
1988/89	652,500,000	n/a	652,500,000
1989/90	677,739,860	n/a	677,739,860
1990/91	699,291,988	n/a	699,291,988
1991/92	714,969,488	303,174,734	1,018,144,222
1992/93	730,122,049	318,506,205	1,048,628,254
1993/94	737,203,496	322,065,373	1,059,268,869
1994/95	756,446,019	330,471,280	1,086,917,299
1995/96	806,748,051	357,977,851	1,164,725,902
1996/97	833,693,434	369,934,312	1,203,627,746
1997/98	832,859,742	369,564,377	1,202,424,119
1998/99	854,180,951	379,025,226	1,233,206,177
1999/2000	880,575,142	390,737,104	1,271,312,246
2000/01	919,848,794	408,163,980	1,328,012,774
2001/02	965,841,233	428,572,178	1,394,413,411
2002/03	1,007,855,328	447,215,070	1,455,070,398
2003/04	1,039,703,554	461,347,062	1,501,050,616
2004/05	1,077,132,883	477,955,558	1,555,088,441
2005/06	1,121,079,905	497,456,144	1,618,536,049
2006/07	1,168,277,369	518,399,049	1,686,676,418
2007/08	1,234,986,007	547,999,635	1,782,985,642
2008/09	1,621,289,630	719,413,921	2,340,703,551
2009/10	1,006,820,860	446,756,045	1,453,576,905
<b>Total</b>	<b>24,980,443,605</b>	<b>8,094,735,104</b>	<b>33,075,178,709</b>

*Source:* DITRDLG (2012, p. 24).



Once the FAGs as outlined in Table 2.2 are paid to the Local Government Grant Commissions, the states are required to distribute them to local councils according to the principles outlined in Table 2.3.

**Table 2.3 Concepts and Principles for Distribution of FAGs to Councils**

Concept/Principle	Description
Full Horizontal Equalisation	General purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This basis ensures each local governing body in the State or Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State or Territory. It takes into account differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue. Based on section 6(3) of the <i>Local Government (Financial Assistance) Act 1995</i> .
Effort Neutrality	An effort- or policy-neutral approach will be used in assessing the expenditure requirements and revenue-raising capacity of each local governing body. This means, as far as practicable, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determination.
Minimum Grant	The minimum general purpose grant allocation for a local governing body in a year will be not less than the amount to which the local governing body would be entitled if 30% of the total amount of general purpose grants to which the State and Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State or Territory on a per capita basis. Based on section 6(2) of the <i>Local Government (Financial Assistance) Act 1995</i> .
Other Grant Support	Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.
Aboriginal Peoples and Torres Strait Islanders	Financial assistance shall be allocated to councils in a way which recognises the needs of Aboriginal people and Torres Strait Islanders within their boundaries.
Amalgamation	Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following the amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.
Identified Road Component	The identified road component of the financial assistance grants should be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets. In assessing road needs, relevant considerations include length, type and usage of roads in each local governing area. Based on section 12 of the <i>Local Government (Financial Assistance) Act 1995</i> .

Source: DOTARS (2007, pp. 93–94).

Despite the principles outlined in Table 2.3, Johnson (2003, p. 57) identified some deficiencies with FAGs as a funding arrangement between federal, state and local governments. A major deficiency is that FAGs do not provide local government access to revenue from a ‘growth tax’. An example of a ‘growth’ tax is the arrangement established for state governments through the introduction of the GST. Under this

arrangement, the federal government ‘provides the states with the entire proceeds of this ... tax’ and has ensured that the states ‘would be no worse off’ than with previous funding arrangements. Johnson (2003, p. 57) also stressed that a ‘growth tax’ such as the GST is considered fundamental to the sustainability of governments, and that the introduction of the GST was lost opportunity as local government was not able to share in this revenue stream.

A recent trend in inter-governmental grants has been for the federal government to fund local government directly, rather than channelling funds through the states. An example of this trend is the *Roads to Recovery* program, which came into being through the *Roads to Recovery Act 2000*. In 2004 this program was superseded by the AusLink National Land Transport Plan, which included *Roads to Recovery*. This inter-governmental grant was created in response to the historical neglect in allocating adequate funds to the expansion and maintenance of local road networks. This neglect has been caused by a number of reasons, including the increasing demand for councils to allocate funds in the delivery of human services programs and in the ‘expansion of councils’ asset base’ due to ‘local government’s expansion into new fields’ generally (Lopez, Dollery and Byrnes 2007a, p. 5). A further reason is that the local road network was originally funded by the state and federal governments and over time responsibility for this infrastructure has been devolved to local government. These assets are now over a century old and have not been maintained or renewed over this time. According to the Allan Report commissioned by the NSW Local Government and Shires Association, this is because ‘current revenue mechanisms available to local government were not designed to meet the financial burden of “second generation” infrastructure renewal’ (Local Government Inquiry 2006a, p. 115).

The magnitude of this local roads ‘infrastructure crisis’ for local government should not be underestimated, as 80% of Australian public roads (or 649,000km) are classified as ‘local’ and administered by local government (DOTARS 2007, p. 64). Historically the *Roads to Recovery* program has provided substantial funding direct to local state government in response to this issue. For example, the federal government committed \$1.35 billion from 2004/05 to 2008/09 to this program and in 2007 *Roads to Recovery* was extended until June 2014 (Lopez, Dollery and Byrnes 2007a, p. 13). Allocations of funding to councils under this program are determined from recommendations from the

Local Government Grants Commissions in each state and are consistent with the local roads component of FAGs (ANAO 2005, p. 16). It is interesting to note that, whilst *Roads to Recovery* ‘has alleviated the financial crisis in Australian local government and thereby contributed to an amelioration of the deterioration of local infrastructure, it appears that scarce funds have been used in a sub-optimal manner and have not maximised their potentially benevolent impact’ (Lopez, Dollery and Byrnes 2007b, p. 26). It therefore appears that further refinement of the policy and administration of this unique type of inter-government grant may be required.

Dollery, Kortt and Grant (2013, p. 182) continued this critique of *Roads to Recovery*. They stated that *Roads to Recovery* was established within a context of strong political pressure from the national and state local government associations due to reduced Commonwealth funding to local government in real terms by the Hawke and Keating governments, and the first two years of the Howard government. Notwithstanding that significant funds have been provided to councils under this program, *Roads to Recovery* has been able to address only ‘one policy goal – the maintenance and renewal of the existing road network’. The other policy goal of upgrading roads in line with community expectations ‘is still beyond the relief provided by R2R [*Roads to Recovery*]. In fact, only 5.9% of R2R funding up to 2003 was spent on new assets’ (Dollery, Kortt and Grant 2013, p. 187).

Given this less than satisfactory outcome from *Roads to Recovery* in responding to the abovementioned roads ‘infrastructure crisis’, Dollery, Kortt and Grant (2013, p. 188) questioned the effectiveness of these ‘acts of financial largesse from the Commonwealth to local government’. They also questioned the effectiveness of other ‘acts of financial largesse’ from the Commonwealth to councils such as funding provided to local government by the Rudd and Gillard governments in response to the 2008 Global Financial Crisis. Dollery, Kortt and Grant (2013, p. 188) concluded that this type of funding ‘cannot be defined as an element of the sustainable financing of local government and local government infrastructure requirements’.

### Interpretations of Federalism

Various national governments of Australia have developed a range of policies aimed at changing or reforming inter-governmental relations under federation. These policy

initiatives have involved numerous attempts to work in partnership with state governments on various issues reflecting the co-operative nature of the Australian federal system. The term 'New Federalism' provides an excellent example of this policymaking activity since it refers to the attempts of the Whitlam, Fraser and Hawke governments to redefine the relationship between the federal and state governments of Australia.

Prime minister Whitlam's new federalism has been described as 'a bold but heavy-handed attempt to manipulate federalism through extensive use of tied grants and direct payments to regional and local authorities for the purposes of achieving Commonwealth goals in social policy and urban development' (Galligan 1995, p. 203). These grants expanded the interest of the federal government to include policy areas such as health, education, urban and regional development that had historically been the responsibility of the states. Dollery, Kortt and Grant (2013, pp. 166–167) demonstrated the significance of this change by the Whitlam government in that there was an increase in direct Commonwealth funding to local government from \$2.2 million to \$189.87 million between 1972/73 and 1975/76. They concluded that 'it is thus clear that the Whitlam Government broke from the past and recast the relationship between the Commonwealth and local government' (Dollery, Kortt and Grant 2013, p. 169).

New federalism under prime minister Fraser aimed to reverse the centralist agenda of the previous Whitlam government and involved an attempt to improve the financial autonomy of the states. There were two components to the Fraser government's new federalism. Part One was providing the states with funds that were ultimately distributed through the Financial Assistance Grants mechanism based on a percentage of income tax collection, which provided the states with access to funding based on a significant growth tax. Part Two was 'permitting each state to impose an income tax surcharge or return an income tax rebate'; however, the federal government did not alter its taxing regime accordingly and therefore this was not considered a politically viable policy option for the states (Parliament of Victoria 1998, p. 51).

Galligan (1995, p. 203) argued that the new federalism under the Hawke government 'was a more ambitious attempt at improving inter-governmental relations', with a focus on microeconomic reform. Prime minister Hawke (cited by Galligan 1995, p. 203)

noted that the goals of the reform were ‘to improve our national efficiency and international competitiveness, and to improve the delivery and quality of the services governments provide’. To achieve these goals the Hawke government needed to facilitate improved federal–state relationships, as many of the government areas in need of reform were state responsibilities. This was achieved through reviewing each area on a ‘case-by-case’ basis and progressing initiatives such as an ‘overhaul of commonwealth–state fiscal relations, changes to the Premiers’ Conferences arrangements, and a review of tied grant programs with a view to removing duplication’ (Galligan 1995, p. 204). From these initiatives the Hawke government succeeded in ‘adopting national standards, implementing mutual recognition of regulatory provisions across jurisdictions and integrating public infrastructure such as rail, road and electricity systems’ (Galligan 1995, p. 191).

It is likely that the Howard government will be remembered as being supportive of strengthening the power of the federal government. Singleton et al. (2003, p. 110) made the following assessment of the Howard government: ‘Its early actions reflected more the heavy hand of central government as it used its financial strength to enhance and pursue its own policy preferences’. This trend continued throughout the time of the Howard government as evidenced by policy initiatives such as the plan to develop a national industrial relations system. In a speech at the Menzies Research Centre, Howard refuted this idea by claiming that his government’s policies were not about expanding ‘the reach of central government’ but rather affecting ‘change in the federal–state balance ... to expand individual choice, freedom and opportunity’ (Solomon 2005).

Conversely, the subsequent Rudd government had an interest in setting a new policy direction in this area of inter-governmental relations. After the election of the Rudd government in 2007, the *Australia 2020* Summit was announced for April 2008. The purpose of this event was to ‘tackle the long term challenges confronting Australia’s future – challenges which require long-term responses from the nation beyond the usual three year electoral cycle’. The Rudd government invited ‘1,000 plus leading Australians to debate long-term options for the nation across 10 critical areas’ (Australian Government 2008). One of these critical areas was the future of Australian governance and included discussion on the structure of the federation.

Oakes (2008, p. 17) reported that the participants discussing this area recommended that a constitutional convention be held ‘to define roles, responsibilities and structures of our federal system’. Oakes went on to report that the participants discussing the future of the economy also discussed Australia’s federation and proposed ‘the creation of an independent body to carry out a “clean sheet of paper” review of the roles and responsibilities of federal, state and local governments in areas of major economic activity ... the new body would be called a federation commission [and] the key aim ... would be to produce a seamless economy’. In response to these summit discussions it is interesting to note that in his final summit speech prime minister Rudd stated on two occasions that ‘this federation needs to be fixed’ (Oakes 2008, p. 17).

## 2.2.6 CONSTITUTIONAL CHANGE

Any proposal to alter the federal system of government in Australia would require changes to the Australian Constitution. As observed earlier, the Constitution is a key document in any federal system as it articulates the division of powers between the national and state governments. Developed with the intention to make it difficult to amend, the Constitution includes three types of government powers, either stated or implied. First are ‘the exclusive Commonwealth powers’ and second, those powers ‘shared concurrently’ between the Commonwealth and state governments (Section 51 of the Constitution). Third, ‘by implication, matters not mentioned in Section 51 or elsewhere in the Constitution comprise the states’ residual powers’ (Singleton et al. 2003, p. 40). In the event of conflict between federal and state laws where ‘the governments exercised concurrent powers’, Section 109 of the Constitution states that ‘federal laws, and indeed the federal Constitution itself, should prevail’ (Singleton et al. 2003, p. 38). Whilst it has been demonstrated how judicial review of the Constitution can affect inter-governmental relations, changing the Constitution can potentially have the same affect. Section 128 of the Constitution sets out that any proposal to change the Constitution must first be passed by both houses of the federal parliament and must be then subject to a referendum whereby the proposal must be supported by a double majority that includes:

- a national majority of all electors from states and territories; and
- a majority of electors in a majority of the states (i.e., at least four of the six states).

‘Since federation there have been 44 proposals for constitutional change put to Australian electors but only 8 have been approved’ (Australian Electoral Commission 2008). Singleton et al. (2003, pp. 56–58) identified three key reasons why proposed constitutional amendments have not been supported by the required double majority.

First, there are a number of procedural factors, such as the difficulty associated with achieving a majority of voters in a majority of states and the fact that a number of referendums have asked multiple, and at times complex, questions that either confused or concerned voters about the implications of the proposed change. It has also been argued that compulsory voting, and the consequent participation of uninterested voters, may have contributed to the unsuccessful referendum outcomes (Singleton et al. 2003). However, there is limited evidence to support this notion. Second, it has been suggested that voters’ attitudes have been a reason for the lack of support. Singleton et al. (2003, p. 57) argued that people ‘wish to maintain the identity and powers of the states ... are opposed to big governments and so deny the Commonwealth additional powers, [and/or] voters distrust politicians’. The final reason relates to party politics: it is usual for one side of politics to support a referendum and the other to oppose it. Once this division along party lines exists in the community, it is very difficult for any particular referendum to succeed. The issue of constitutional change is of particular interest to local government in Australia in relation to constitutional recognition for local government, and is discussed further in Section 2.3.

#### 2.2.7 LOCAL GOVERNMENT IN THE AUSTRALIAN FEDERATION

It can be argued that local government should seek opportunities to participate in the ongoing interplay between the other levels of government where appropriate. The overlapping of responsibilities and functions between the national and state governments inherent in co-operative federalism also applies to local government in many policy areas. Accordingly, forums such as the Coalition of Australian Governments (COAG), which is ‘the peak inter-governmental forum in Australia, comprising the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association (ALGA)’ are of strategic importance to local government in Australia (COAG). It is through meetings of COAG and other national inter-governmental forums that ALGA can represent the interests of

local government across Australia, develop relationships with other levels of government and participate in discussions on a range of policy issues such as fiscal federalism. Sansom (2008) has reviewed the performance of ALGA in relation to its role in COAG and other national inter-governmental forums. He argued that ‘local government has had great success over recent decades in gaining membership of inter-governmental forums: the question is whether it can make the best use of that access to the highest levels of policy-making’ (Sansom 2008, p. 36). Chapman and Wood (1984, p. 12) summarised the issue as follows:

To survive as part of the body politic local government must accustom itself to, and be seen to be, operating as part of the inter-governmental network. Just as actors in the other two spheres are recognised to be negotiating this maze, building up coalitions, bargaining and consulting, so it should be clear that the same is happening to local government actors. The inter-governmental network is in a sense most appropriately seen as the framework within which local authorities exist.

Achieving this position on the national political stage continues to provide many challenges for local government, which is due in part to the historical and contemporary role of local government in Australia as described below.

## **2.3 ROLES AND RESPONSIBILITIES OF LOCAL GOVERNMENT IN AUSTRALIA**

### **2.3.1 HISTORY OF LOCAL GOVERNMENT IN THE AUSTRALIAN FEDERATION**

According to McNeil (1997, p. 20), by international standards local government in Australia has a limited role in the Australian federal system. This is due in part to the history of local government in that this level of government ‘had a “services to property” orientation in an expansive and difficult environment’. It is important to note that this critical role played by local government in early colonial Australia emerged from an attitude of ambivalence amongst colonial governments. Prominent people and decision makers in these early Australian communities were landowners, and as such they were reluctant supporters of local government because they were required to fund council activities through the payment of taxes. However, the demand for basic services and infrastructure became too high for colonial governments to manage and local governments began to emerge (McNeill, 1997, pp. 18–20).



Chapman and Wood (1984, p. 18) recounted the beginnings of this tier of government in Australian both pre- and post-federation:

Local self-governance in Australia came from some colonial governments trying to force some tasks of government on local citizens and from property owners trying to clear and farm virgin land and to trade whatever they could harvest from the land. Geographical inaccessibility from the centre of colonial government helped to explain much about the beginnings of local government. Local leaders emerged within small communities struggling to survive. Their tasks were to promote the needs of the community with the government of the day.

McNeill (1997, p. 19) described the early role of local government in a more tangible way by identifying that, in order to overcome this isolation, roads were initially the highest priority for local governments, followed by the urgent issues of public health and safety. For early local governments ‘unsafe building practices and the need for sewerage disposal, drainage and clear water became important considerations from the middle of the nineteenth century onwards’. Table 2.4 summarises the emergence of local governments throughout Australia.

**Table 2.4      Emergence of Local Government in Australia**

States	Historical Situation	Outcomes
Queensland	State members of parliament and premiers during the 1870s wanted to devolve responsibility for public infrastructure to councils.	Established a comprehensive system of local government through the <i>Local Government Act 1878</i> and <i>Divisional Boards Act 1879</i> .
Victoria	A geographically smaller state that was populated quickly.	Achieved a comprehensive system of local government by 1863 under the <i>Municipal Institutions Act 1854</i> .
South Australia	There was a voluntary trend towards the establishment of local government in populated areas only.	A comprehensive system of local government did not exist in South Australia by the end of the 19th century.
New South Wales and Tasmania	Reluctance to extend the system of local government beyond a small number of existing councils.	Both states established Local Government Acts after federation in 1906, which created a compulsory system of local government across each of these states (apart from some areas of western New South Wales, which remain unincorporated).
Western Australia	This state did not achieve representative government until 1870.	Settled communities had established local governments prior to separation from England.

Source: Adapted from Chapman and Wood (1984, pp. 28–29).

Table 2.4 shows that, whilst a system of local government in most states did emerge in some form prior to federation, this early stage in the evolution of local government was not consistent across the states.

It is important to note alternative views of the development, and importance, of local government in Australia. Whilst local government appeared to play a vital role in representing local communities prior to federation, by the middle of the 20th century this tier of government was ‘an empty bay containing only the institutional rituals of civic administration’ (Chapman and Wood 1984, p. 29). This assessment may be based on the lack of autonomy and independence of local government that emerged through the advent of the new federal system, and the beginning of complex and ever-changing interplays between the national, state and local governments of Australia. This is a view shared by Brown (2008, p. 438), who described local government as ‘a comparatively weak creation’ due to the fact that ‘in most jurisdictions [local government] has typically operated as much in conflict with the State governments under whose constitutional control they fall, as an agreed part of colonial, State or later federal constitutional arrangements’.

An alternative view of the strategic importance of local government in Australia was presented by Purdie (1976, p. 14): ‘local government, one can say with confidence, is the only governmental body which is so constituted, located and equipped as to be best suited to supply at grass roots a very significant range of personal services. It exists to serve local people, it is administered by local people and is able to provide for them a statutory voice’.

These alternative views of local government in Australia form the basis of an ongoing tension between federal, state and local government with regard to ‘degrees of state control’ (McNeill 1997, p. 22). This refers to councils’ degree of autonomy over the provision of local services and whether local government should be seen as ‘merely acting as an agent of the state (or federal government)’ or be able to have some degree of autonomy in service provision. McNeill (1997) addressed this dilemma by claiming that local government autonomy over the delivery of a service should be directly proportional to how local the effects, preferences, access and accountability measures are in relation to a service. Whilst this argument reflects the ‘correspondence principle’ discussed earlier, McNeill went on to state that very few, if any local government services are totally local and that state and federal interests inevitably exist. Historically, it is this vested interest of other levels of government that has formed the

basis of many successful state-local partnerships, or conflicts between levels of government due to differing priorities (McNeill 1997).

### 2.3.2 LOCAL GOVERNMENT AND THE AUSTRALIAN CONSTITUTION

Brown (2008, p. 437) highlighted that, although the Constitution ‘is silent’ about the existence of local government, it did feature in the federation process. Regardless, it is from this point in Australian political history that the contemporary questions and issues facing local government seem to originate.

Aulich and Pietsch (2002, p. 14) suggested that local government was not ‘excluded in a deliberate sense’ from the federation process but that ‘there was little pressure for its inclusion’. They went on to propose five factors that contribute to the lack of local government recognition in the Australian Constitution. A number of these factors relate to the self-interest of the colonial governments at the time and maintenance of the *status quo*. For example, the first factor cited was ‘limiting the transfer of powers to a national government’. At the time it was considered that a ‘minimalist approach’ should be taken towards the Australian Constitution and ‘that as little power as possible would be ceded to the national government, and that local or municipal matters would remain within the ambit of state governments’ (Aulich and Pietsch 2002, p. 16). This was achieved by allocating only specific powers to the national government, with the states retaining a wide range of existing responsibilities that were not seen to be of national interest, including local government. Therefore there was no need to single out local government for specific mention in the Australian Constitution.

The second factor postulated by Aulich and Pietsch (2002) follows on from the view that the power and autonomy of individual states under federalism should not be usurped by the national government. As a result, it appears that at the time of federation the colonial leaders considered that the role of local government and its relationship with the colonies should be maintained. This view was reinforced when the issue of direct funding of local government by the federal government was discussed. It appears that the prevailing view was that direct funding was a threat to federation as it undermined the power of the colonies to control funds and the activities of local government.

Third, perhaps the most interesting factor raised by Aulich and Pietsch (2002, pp. 18–19) was the ‘low status of local government’. The role of councils was not considered significant by colonial leaders and it was stated that ‘for many of those involved in colonial parliaments, municipal councils were little more than an administrative convenience’. This view of local government was further reinforced by the fact that there were areas of Australia at the time of federation which did not form part of a system of local government, and in these areas colonial governments assumed responsibility for dealing with the local needs of these communities. That the nation’s earliest leaders did not see local government as a strategic and important part of Australia’s system of government not only explains why there was no need to mention local government in the Australian Constitution, but it also serves as a point of origin for the powerlessness experienced by local government in contemporary Australia.

Fourth, whilst the self-interest of colonial governments was expressed by devaluing the role and potential contribution of local government to the Australian federation, others were concerned that ‘a robust local government sector might inject unwanted tensions into the federation’ (Aulich and Pietsch 2002, p. 20). This added further weight to the need for colonial/state governments to exercise control over local government. Recognition in the Australian Constitution would be counterproductive as it would have strengthened the position of local government.

The final factor articulated by Aulich and Pietsch (2002, p. 21) was that the overall intent and orientation of federation and the drafting of the Australian Constitution was to build the nation of Australia. Local needs and interests consistent with the role of councils were simply not seen as relevant or as a high priority in this context. Aulich and Pietsch (2002, p. 21) stated that ‘in this environment it was hardly surprising that local and municipal interests did not find their way onto the agendas of the [federation] conventions and conferences’.

Since federation there have been two attempts to gain constitutional recognition for local government. According to the ALGA (2008a, pp. 16–21), the movement for constitutional recognition began in 1973. The Whitlam government proposed the *Constitutional Alteration (Local Government Bodies) Bill* that would have enabled the federal government to directly fund councils ‘without passing grants through the state

governments and Local Government Grants Commission'. It would also have had the effect of recognising the existence of local government in the Australian Constitution. This bill was not supported by the opposition of the day and at referendum it obtained a majority in only one state and an overall minority nationally.

In 1976, the issue of local government recognition in states' Constitutions was addressed at a constitutional convention, and by 1985 three states had formally recognised local government. In the same year a further constitutional convention was held and at this forum consideration was given to a proposed *Declaration as to the Principles to be Applied in the Constitutional Operation and Regulation of Local Government Authorities in Australia*. This declaration made a number of demands about recognising local government as a legitimate and necessary part of the Australian system of government. The declaration also suggested some key guiding principles as to how local governments should be elected and how they should operate (ALGA 2008a, pp. 17–18):

- Within every jurisdiction in Australia there be a system of local government.
- The system extend to all areas in which sufficient number of people reside to warrant a local authority in their area.
- Except in special circumstances the local authority be elected by all adults resident – but not as to exclude property owners – in the area administered by the local authority.
- Local authorities be granted adequate powers and the right to manage and regulate the affairs of the local community within the framework of the laws applying to such local authorities.
- Each local authority be provided with access to adequate funds to enable it to perform its function with equity and efficiency.
- A local authority not be subject to arbitrary dismissal or suspension.

The other major outcome of this constitutional convention was the establishment of a constitutional commission. The constitutional commission was established by the Hawke government in December 1985 and its final report was delivered in June 1988. The members of the commission were:

- Sir Maurice Byers CBE QC (Chairman)
  - Professor Enid Campbell OBE
  - Hon Sir Rupert Hamer KCMG
  - Hon E Gough Whitlam AC QC
  - Professor Leslie Zines
  - Hon Justice J L Toohey (resigned December 1986)
- (Parliament of Australia 2013)

One of the recommendations of this commission to the federal government was that local government be recognised in the Australian Constitution. The federal government subsequently proposed that section 119A be included as such:

‘119A. Each State shall provide for the establishment and continuance of a system of local government, with local government bodies elected in accordance with the laws of the State and empowered to administer, and make by-laws for, their respective areas in accordance with the laws of the State’ (ALGA 2008a, p. 18).

The referendum related to this proposed amendment was held in 1988 and did not receive an overall majority, nor was a majority received in any of the states. ALGA (2008a, pp. 20–21) listed reasons for the result similar to those offered by Singleton et al. (2003) for this referendum failure, including ‘party politics ... asking too many questions at once ... [and] strong political opponents (including States)’.

In May 2013 the Gillard government announced that there would be a further referendum in relation to constitutional recognition of local government alongside the federal election on 21 September 2013. The focus of this referendum is to recognise in the Constitution ‘the current funding relationship and practices between the between the Commonwealth and local government’, specifically the practice of the Commonwealth directly funding local government and bypassing the states (Department of Regional Australia, Local Government, Arts and Sport 2013). At this next referendum, the following amendment is proposed to section 96 of the Constitution:

96 Financial assistance to States *and local government bodies*

During a period of ten years after the establishment of the Commonwealth and thereafter until the Parliament otherwise provides, the Parliament may grant financial assistance to any State, *or to any local government body formed by a law of a State*, on such terms and conditions as the Parliament thinks fit’ (Department of Regional Australia, Local Government, Arts and Sport 2013).

The ALGA’s President, Felicity-ann Lewis, described this referendum as ‘our [local government’s] fight to protect federal funding for councils [and] is in the best interests of every local community’. It is interesting to note that ALGA’s position on this most recent attempt to recognise local government in the Australian Constitution is not shared by some of the states. For example, the LGAQ comments that ‘the Newman

Government's about face in regard to its stance on the need to have the Australian Constitution protect direct funding to local communities is both disappointing and amusing' (LGAQ 2013). LGAQ's President, Councillor Margaret de Wit, goes on to state that 'I am mystified as to why this Government, a longtime supporter of the need for constitutional recognition of local government, is now putting obstacles in the way of change'. Queensland's local government minister David Crisafulli has stated that the Queensland Government would like to see the wording of the referendum changed so that the Commonwealth Government can provide 'direct funding without control ... It [local government] cannot be the puppet of someone in Canberra because Canberra does not understand communities' (Donaghey 2013). In response to this position of the Queensland Government, Councillor de Wit stated that 'the LGAQ had provided eminent legal opinion to the [Queensland] Government that showed there was no danger that the states would lose control over councils if the referendum proposing to recognise local government in the Constitution was passed' (LGAQ 2013).

In August 2013 the subsequent Rudd government brought the federal election forward to 7 September 2013. This change in the timing of the election meant that this referendum could not go ahead. This was because the bill to hold the referendum passed through the parliament on 24 June 2013 and therefore, due to various electoral and constitutional legislative requirements, the earliest this referendum could be held alongside a federal election was September 14 2013. The federal government's minister for Regional Australia, Local Government and Territories Catherine King stated that 'the government remained committed to the constitutional recognition of local government and would work towards a new date giving voters more time to consider it' (Perry 2013).

### 2.3.3 CONTEMPORARY LOCAL GOVERNMENT IN AUSTRALIA

To achieve a unified national voice for local government on issues such as constitutional recognition, due consideration must be given to the size and diversity of this sector, and whilst the functions of Australian local government may be considered limited by international standards, at the national level significant diversity exists within contemporary Australian local government.

As a sector, local government makes a significant contribution to the Australian economy. In 2009/10 local government revenue of \$32.4 billion represented approximately 2.5% of Australia's gross domestic product and in June 2010 the local government sector employed approximately 185,400 people (Department of Regional Australia, Local Government, Arts and Sport 2012, p. 5). However, the sector is made up of a diverse range of councils representing very different communities. DOTARS (2007, p. 6) described this diversity in terms of a 'range and scale of functions, councils fiscal position, physical, economic, social and cultural environments, attitudes and aspirations of local communities and the legislative frameworks within which councils operate'.

In order to better understand the diverse nature of local government in Australia, a classification system has been established to group councils with similar characteristics. This classification system is known as the Australian Classification of Local Government (ACLG) and is made up of two general categories, urban and rural. Urban councils are described as follows:

1. population of more than 20,000 people; or
2. population of less than 20,000 but the population density is greater than 30 people per sq km; or
3. 90% of the population is urban.

Urban councils are then divided into a number of sub categories, as described in Table 2.5.



**Table 2.5 Summary of Urban (U) ACLG Categories**

Sub Category Level 1	Description	Sub Category Level 2	Description (population)	Category
Capital City (CC)	n/a	n/a	n/a	UCC
Metropolitan Developed (D)	Part of an urban centre of more than 1,000,000 or a population density of more than 600 per sq km	Small	Up to 30,000	UDS
		Medium	30,001–70,000	UDM
		Large	70,001–120,000	UDL
		Very Large	More than 120,000	UDV
Regional Town/City (R)	Part of an urban centre with population less than 1,000,000 and predominantly urban in nature	Small	Up to 30,000	URS
		Medium	30,001–70,000	URM
		Large	70,001–120,000	URL
		Very Large	More than 120,000	URV
Fringe (F)	A developing local government area on the margin of a developed or regional centre	Small	Up to 30,000	UFS
		Medium	30,001–70,000	UFM
		Large	70,001–120,000	UFL
		Very Large	More than 120,000	UFV

Source: DOTARS (2007, p. 213).

Rural councils are described as follows:

1. population of less than 20,000; and
2. population density less than 30 people per sq km; and
3. less than 90% of the population is urban.

Rural councils are then divided into a number of sub categories, as described in Table 2.6.

**Table 2.6 Summary of Rural (R) ACLG Categories**

Sub Category Level 1	Description	Sub Category Level 2	Description (population)	Category
Significant Growth (SG)	Average annual population growth more than 3%, population more than 5,000	n/a	n/a	RSG
Agricultural (A)	n/a	Small	Up to 2,000	RAS
		Medium	2,001–5,000	RAM
		Large	5,001–10,000	RAL
		Very Large	10,001–20,000	RAV
Remote (T)	n/a	Extra Small	Up to 400	RTX
		Small	401–1,000	RTS
		Medium	1,001–3,000	RTM
		Large	3,001–20,000	RTL

Source: DOTARS (2007, p. 213).

Table 2.7 indicates the distribution of councils across each of the 22 ACLG categories as at June 2006.

**Table 2.7 Council by ACLG Categories, 2006**

<b>ACLG</b>	<b>Number of Councils</b>	<b>Percentage of Total</b>
Urban Capital City (UCC)	7	1.0
Urban Development Small (UDS)	17	2.4
Urban Development Medium (UDM)	28	4.0
Urban Development Large (UDL)	23	3.3
Urban Development Very Large (UDV)	20	2.9
Urban Regional Small (URS)	68	9.7
Urban Regional Medium (URM)	39	5.6
Urban Regional Large (URL)	7	1.0
Urban Regional Very Large (URV)	11	1.6
Urban Fringe Small (UFS)	29	4.1
Urban Fringe Medium (UFM)	14	2.0
Urban Fringe Large (UFL)	11	1.6
Urban Fringe Very Large (UFV)	12	1.7
Rural Significant Group (RSG)	9	1.3
Rural Agricultural Small (RAS)	75	10.7
Rural Agricultural Medium (RAM)	80	11.4
Rural Agricultural Large (RAL)	68	9.7
Rural Agricultural Very Large (RAV)	70	10.0
Rural Remote Extra Small (RTX)	43	6.1
Rural Remote Small (RTS)	30	4.3
Rural Remote Medium (RTM)	28	4.0
Rural Remote Large (RTL)	11	1.6
<b>Total</b>	<b>700</b>	<b>100.0</b>

*Source:* DOTARS (2007, p. 214).

Table 2.7 indicates that, whilst councils are distributed unevenly across ACLG categories, significant numbers of councils/populations are represented in each category. This broad distribution illustrates why different councils face vastly different types of problems. For example, the biggest issue for a large rural and remote council might be road infrastructure maintenance, whilst for a capital city council it may be growth management and rapid urban development. Such diversity has implications for determining the best way to advocate for local government, policy development and in creating a ‘unified voice’ for the sector.

The diversity in the local government sector can also be demonstrated in the differences in revenue sources, as summarised in Table 2.8.

**Table 2.8      Local Government Revenue Sources by Jurisdiction, 2005/06**

<b>Revenue Source</b>	<b>NSW (%)</b>	<b>Vic (%)</b>	<b>Qld (%)</b>	<b>WA (%)</b>	<b>SA (%)</b>	<b>Tas (%)</b>	<b>NT (%)</b>	<b>Total (%)</b>
Taxation revenue	36.6	51.9	27.1	41.5	60.2	32.6	23.8	38.6
Sale of goods and services	34.3	19.4	39.0	21.4	16.6	40.6	23.1	30.3
Interest	4.5	1.4	2.0	3.3	1.6	3.1	2.7	2.8
Current grants and subsidies	8.9	11.3	7.0	8.5	11.8	10.9	21.5	9.2
Other revenue	15.7	16.0	24.9	25.2	9.8	12.8	29.2	19.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source:* DOTARS (2007, p. 14).

Table 2.8 shows that 60.2% of local government revenue in South Australia derives from taxation, whereas this revenue source represents just 27.1% of total revenue in Queensland. Furthermore, councils receive 40.6% of their total revenue from the sale of goods and services in Tasmania, compared with 19.4% in Victoria. It can be argued that these differences in revenue sources would influence to varying degrees the types of products and services provided by councils and the business models used. For example, in states where the proportion of taxation revenue is low, individual councils may overcome this issue by making a greater use of a ‘user pays’ model or by delivering a comparably reduced range of products and services. As we have seen, councils are also involved in a wide range of activities. Table 2.9 shows this diversity, and the different emphasis local governments place on various activities in each state.

**Table 2.9 Local Government Expenditure by Purpose, by Jurisdiction, 2005/06**

<b>Expenditure</b>	<b>NSW (%)</b>	<b>Vic (%)</b>	<b>Qld (%)</b>	<b>WA (%)</b>	<b>SA (%)</b>	<b>Tas (%)</b>	<b>NT (%)</b>	<b>Total (%)</b>
General public services	20.7	12.2	22.9	9.8	13.7	15.1	24.2	17.8
Public order and safety	4.9	2.1	1.5	3.3	1.5	1.0	0.9	2.8
Education	0.3	1.0	0.1	0.4	0.0	0.0	0.6	0.4
Health	1.2	1.3	0.7	1.8	2.2	2.0	2.1	1.3
Social security and welfare	4.9	16.1	1.1	4.6	4.1	3.7	2.9	6.3
Housing and community amenities	22.6	19.3	30.9	15.8	20.1	36.7	25.7	23.8
Recreation and culture	15.0	17.8	10.2	22.4	18.1	10.7	8.6	15.0
Fuel and energy	0.0	0.0	0.1	0.0	0.8	0.0	0.3	0.1
Agriculture, forestry and fishing	0.0	0.0	0.5	0.2	1.1	0.0	0.6	0.2
Mining, manufacturing and construction	2.2	0.0	1.6	1.7	1.6	0.0	0.3	1.4
Transport and communication	19.2	20.3	24.2	33.0	22.3	22.1	10.9	22.2
Other economic affairs	3.9	4.5	2.3	1.9	4.9	2.7	22.7	3.8
Public debt transactions	1.7	0.9	3.1	0.9	2.2	2.0	0.0	1.8
Other	3.4	4.4	1.1	4.1	6.4	3.9	0.0	3.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source:* DOTARS (2007, p. 18).

Table 2.9 shows that 16.1% of expenditure in Victorian councils related to the provision of social security and welfare services, compared with 1.1% in Queensland.

Furthermore, expenditure in housing and community amenities in local government represented 36.7% of total expenditure in Tasmania, compared with 15.8% in Western Australia. Although councils do undertake a wide range of activities to varying degrees in each state, it is important to note that in general terms approximately 80% of local government expenditure in Australia lies in four main areas: Housing and community amenities (23.8%), transport and communication (22.2%), general public services (17.8%) and recreation and culture (15.0%).

Worthington and Dollery (2001) also demonstrated the great diversity in local government in Australia. Table 2.10 summarises this work by highlighting a number of

elements to this diversity in Australian local government in addition to those mentioned above using statistics from DOTARS (2007).

**Table 2.10 Additional Elements of Local Government Diversity**

<b>Element</b>	<b>Description</b>
Legislation	Local government across Australia is subject to a diverse range of state-based legislation. The primary legislation is the different Local Government Acts in each state (see Section 2.4.1), and there are also numerous acts that regulate within each state specific activities of councils in areas such as planning, environment and public health.
National distribution	At the time of the DOTARS (2007) publication, the number and type of council within each state varied considerably. In 2006 Queensland had the highest number of local governments (157), followed by NSW (155), whilst the lowest numbers were in the Northern Territory (64) and Tasmania (29). In Queensland, 58.6% of the councils were classified as rural, compared with 47.7% in NSW, 65.5% in Tasmania and 90.5% in the Northern Territory (DOTARS 2007, pp. 5, 214).
Population	DOTARS (2007, p. 5) also highlighted the uneven distribution of Australia's population across local government. For example, the average population of a local government area in Queensland in 2006 was 25,234 compared with 41,339 in NSW, 14,156 in Western Australia and 3,016 in the Northern Territory.
Area covered	Significant diversity also exists in relation to the geographical area of councils in Australian. In 2006 councils in Western Australia on average covered the greatest geographical area (17,515 sq km) followed by Queensland (11,153 sq km); the lowest averages were in South Australia (2,102 sq km) and the Northern Territory (1,453 sq km) (DOTARS 2007, p. 5).
Road length	Differences also exist in relation to average road length councils are responsible for in each state. Victorian councils have the highest average (1,615 km) followed by South Australia (1,018 km); the lowest averages are in Tasmania (485 km) and the Northern Territory (220 km). This is of particular relevance given that 'the provision and maintenance of local roads are one of the most primary functions of local government' (Worthington and Dollery, 2001, p. 54).

*Source:* Adapted from Worthington and Dollery (2001).

In addition to the elements of diversity described in Table 2.10, it is important to note that local government diversity also exists within state jurisdictions. For example, for Queensland, in 2006 Brisbane City Council had the highest population of 957,010 people and maintained the greatest road length of 5,562 km. This can be compared with Ugar Island Council in the Torres Strait, which had the lowest population of 57 and a total road length of 2 km. In terms of area covered, the Ugar Island Council area is less than 1sq km, compared with 117,084 sq km for the Cook Shire Council (DOTARS 2007, pp. 168–174).

Another important aspect of contemporary local government is the increasing focus on 'services to people' rather than its historical 'services to property' role, discussed above. Dollery, Wallis and Allan (2006) noted a growing trend towards local government

providing various community development services and an increased regulatory role in areas such as environmental management and public health.

The Commonwealth Grants Commission (2001, pp. 53–54) identified various characteristics of this trend from 1961/62 to 1997/98. It observed that the trend towards ‘services to people’ was continuous over this time and that expenditure on services in ‘recreation and culture’ and ‘housing and community amenities’ had risen by 20% in each area. At the same time, council spending on roads had halved whilst expenditure in ‘education, health, welfare and public safety’ had increased. From this trend it can be argued that councils in Australia are evolving into a ‘maximalist’ model of local government whereby this level of government takes on the delivery of a broad range of services, and that ‘they should undertake such services that local communities want and are prepared to pay for’ (Local Government Inquiry 2006b, pp. 11–12). This model is in contrast to the ‘minimalist’ model of local government which is more consistent with early local government in Australia. This model describes councils as ‘the body corporate for the local community and as such [it] should look after the common property and regulate the usage of private properties’ (Local Government Inquiry 2006b, pp. 11–12). Whilst some of the problems associated with service delivery in local government are explored in later chapters of this thesis, it is interesting to note that the significant institutional implications relating to this trend. For example, this change in the service mix of local government raises questions as to whether councils have the financial capacity to undertake this role (see Section 2.4.2).

#### 2.3.4 NATURE OF LOCAL GOVERNMENT

By examining the roles and responsibilities of local government in Australia from both historical and contemporary perspectives, a number of key observations can be made about the nature of local government. First, local government’s emergence in Australia reflected a ‘grassroots’ need for leadership and advocacy in small, isolated communities within the colonies. To ensure their survival, people required a form of local governance so that basic facilities and services could be established in these areas. This expression of local administration at the local level is still highly valued and has been preserved to some extent. This is demonstrated by the generally accepted view that local government

continues to play a key role in Australia's system of government as the level of government 'closest to the people'.

Second, despite this view, by examining the issues surrounding constitutional recognition for local government, it is clear that local government from an institutional point of view is subservient to the other levels of government. Kiss (2007, p. 323) took this point a step further and reflected the views of Australia's leaders who developed the Constitution by stating that 'Australian local governments are regarded as forms of state administration – perhaps resembling statutory authorities rather than forms of responsible local government'. However, whilst debate continues about the best way to conceptualise the political institution of local government in Australia, there can be no doubt that councils make a significant contribution to the community in the delivery of various public products and services.

Finally, the local government sector by its very nature is diverse, and this can be understood both as a strength and as a limitation. Diversity in local government shows the continuing evolution of councils as flexible and adaptable organisations that are responsive to the needs of local communities, as demonstrated by the increased emphasis on 'services to people' rather than the historical 'services to property'.

Worthington and Dollery (2001) contended that this diversity is likely to continue and change due to pressures associated with changes in demographic and employment patterns in Australia, such as increased population densities in 'urban fringe' areas and a decline in rural populations. They went on to state that these factors would have significant impacts on how councils structure their activities in areas such as infrastructure development, which is a key function of local government. For example, 'in declining population areas there is a concern about the efficient use of infrastructure. However in these same areas infrastructure is likely to be relatively older and more in need of replacement than those areas experiencing population growth' (Worthington and Dollery 2001, p. 56).

Alternatively, this diversity can promote local parochialism and cause conflict within the sector at the expense of a unified voice on important policy issues. This lack of consensus can then impact upon local government's ability to successfully engage and

negotiate with other levels of government. Sansom (2008, p. 33) included these concepts in a more comprehensive list of the strengths and limitations of local government in the context of the Australian system of government (see Table 2.11).

**Table 2.11 Strengths and Limitations of Local Government**

<b>Strengths</b>	<b>Weaknesses</b>
Informed localism and regionalism	Fragmented parochialism
Place focus and core business	Scatter-gun wishlists
Financial autonomy	Mendicant mentality
Larger councils and creative diversity	‘Whingers’ and ‘basket cases’
Community support	Disengaged communities

*Source:* Adapted from Sansom (2008, p. 33).

As discussed above, Table 2.11 reinforces the notion that, in some cases, the ‘strengths’ of local government can also be its ‘weakness’.

## **2.4 LOCAL, STATE AND FEDERAL GOVERNMENT RELATIONSHIP**

As we have seen, local government is not formally recognised in the Australian Constitution, despite the integral part it plays in delivering services to the Australian community. This subordinate role of local government can also be seen by examining various other aspects of the relationship between local, state and federal government in Australia.

### **2.4.1 LEGISLATIVE BASIS FOR LOCAL GOVERNMENT IN AUSTRALIA**

The operation and function of local government in Australia is based on legislation enacted by each state. This legislation includes the states’ constitutions, local government acts and associated regulations and other laws which relate to many of the activities undertaken by local government such as town planning, building regulations and environmental management legislation. Table 2.12 summarises how local government is recognised in each state’s Constitution.



**Table 2.12 References to Local Government in States' Constitutions**

State	Section of State's Constitution	Key Features
New South Wales	Part 8 Local Government 51. Local Government (1-4)	Consists of a general provision enabling the existence of elected or appointed local governments that are wholly subject to the laws of the state and identifies a number of other institutions such as the Lord Howe Island Board as a local government entity.
Victoria	Part IIA Local Government 74A. Local Government 74B. Local Government Laws	Defines local government and outlines the roles and responsibilities of councils. Identifies that parliament may make laws relating to a wide range of issues relating to local government including the election, administration, suspension, dismissal and re-instatement of a council.
Queensland	Chapter 7 – Local Government Part 1 – System of Local Government Part 2 – Procedure Limiting Dissolution of Local Government and Interim Arrangement Part 3 – Special Procedures for Particular Local Government Bills	Part 1 70 System of Local Government 71 Requirements for a Local Government Part 2 72 Definition for pt 2 73 Dissolution of local government must be tabled 74 Suspension until dissolution ratified 75 Ratification of dissolution 76 No tabling or ratification of dissolution Part 3 77 Procedure for Bill affecting a local government 78 Procedure for Bill ending a system of local government
South Australia	64A – Constitutional guarantee of continuance of local government in this State (1-3)	Guarantees a system of elected local government in South Australia wholly subject to the laws of the state. This provision outlines the process to cease a system of local government as being a Bill that has been passed by an absolute majority of the members of each House of Parliament.
Western Australian	52. Elected local governing bodies 53. Certain laws not affected	Makes provision for the existence of a system of elected local government with certain powers as determined by the laws of the state.
Tasmania	Part IVA – Local Government 45A. Elected municipal councils 45B. Certain laws not affected 45C. Municipal areas	Outlines that the state is to have a system of elected local government with certain powers as determined by the laws of the state and outlines that municipal areas are not to be altered without the recommendation of the Local Government Board established under the Local Government Act 1993.

*Source:* Adapted from (ALGA 2008a, p. 9).

Although the state Constitutions listed in Table 2.12 make provision for and provide guarantees in relation to local government, the key feature of this legislation is that councils have been created by, and are wholly subservient to, the states in law. The legislative position of local government in Australia is the key reason why local governments are subject to state-based policy initiatives such as structural reform, and highlights the stark reality that ‘if they wish ... the states can exercise their power and structure relationships in a way that excludes or completely overrides local government’ (Sansom 2008, p. 32).

#### 2.4.2 FISCAL STRESS

A key feature of the relationship between local, state and federal governments in Australia has been fiscal stress. This stress has been caused in part by structural factors and the actions of state and federal governments, and in some instances by substandard financial management practices of councils. Whilst the issue of vertical fiscal imbalance discussed above is a major source of fiscal stress for councils, other causes include cost shifting, changing community expectations, limited revenue raising opportunities and the 'infrastructure crisis' (Dollery, Crase and Johnson 2006).

The fiscal stress experienced by local governments is caused in part by 'cost shifting and unfunded mandates'. Cost shifting can relate to 'inadequate indexation' of grants provided by the state and federal governments, which is a 'reduction in grant funding in real terms'. It can also mean that local governments continue to provide goods and services without the required funding, since a higher level of government has reduced or ceased to provide the required funds. In conjunction with this practice is the imposition of 'more stringent (and costly) conditions attached to grants' (Dollery, Crase and Johnson 2006, pp. 26–28). Cost shifting can also refer to circumstances whereby other levels of government do not provide goods and services that they would typically offer to the community, but instead expect local government to undertake these functions. This has been largely 'caused by the withdrawal and centralisation of most state and federal services'. A further aspect of cost shifting relates to increasing the recovery of 'fees, charges, licence contributions and other monies from councils in order to fund their operations'. The higher levels of government benefit from this indirect way of raising revenue through 'relative[ly] low voter backlash, since citizens are only paying indirectly for the increase in fees and charges' (Dollery et al. 2006, p. 27).

Cost shifting can also take the form of unfunded mandates, which relate to state and federal governments imposing requirements on local government or using councils 'as a vehicle for implementing their own policies and political objectives' without providing the necessary funds to undertake these activities. This is most often achieved through legislation enacted by higher levels of government which local government is then required to implement or by 'changing the requirements of existing legislation administered by local government' (Dollery, Crase and Johnson 2006, p. 28).

In 2002 the federal government commissioned an inquiry *Local Government and Cost Shifting* to be undertaken by the House of Representatives Committee on Economics, Finance and Public Administration. Whilst the Committee's report, *Rates and Taxes: A Fair Share for Responsible Local Government* (2003; the 'Hawker Report') is considered in more detail in Chapter 3, the key findings of the Hawker Report have been summarised by Sansom (2008, p. 18). Two of these findings relate specifically to cost shifting:

- Cost shifting is widespread and exacerbated by councils accepting even more functions to satisfy community expectations (ALGA had estimated that cost shifting amounted to between \$500 million and \$1.1 billion annually).
- Local government does not always receive its fair share of Commonwealth special purpose payments made to and through the states, and some states have offset increased federal grants by reducing their own assistance to councils.

As we have seen, responding to changing community expectations has also been a source of fiscal stress for local governments. For example, there is a growing need for councils to expand their historical role of providing 'services to property' to include more 'services to the people'. Councils are now providing a variety of services beyond refuse collection, supply of water and public infrastructure. They are now involved in the provision of community, sport and recreation programs, economic and cultural development initiatives and many other non-traditional services. In relation to this issue, a key finding of the Hawker Report was that 'some councils are guilty of poor financial management [by] not saying "no" to community demands for expanded services when budgets are tight or functions could be left to the states or commonwealth' (Sansom 2008, p. 19).

Johnson (2003, p. 38) observed that the fiscal stress experienced by local government 'is further complicated by its limited and restrictive revenue raising options'. Local government has 'legislative restrictions on its ability to raise revenue; and limited access to a sufficiently broad range of revenue, including the holy grail of a growth tax'. An example of this issue is rate pegging in New South Wales, whereby 'the state government arbitrarily sets a ceiling on percentage rates increases' (Dollery, Crase and Johnson 2006, p. 30). Increasing community expectations, combined with limited revenue raising options are causing a 'community expectation/funding gap' in local government (Johnson 2003, p. 37).

The provision and maintenance of public infrastructure has emerged as a major source of fiscal stress for councils. Sansom (2008, p. 19) contended that the Hawker Report identified that 'growth in local government responsibilities has outpaced revenues with the result that most councils are under-funding infrastructure maintenance and renewal. The infrastructure shortfall is at least \$1 billion each year, and perhaps \$2 billion'. This 'infrastructure crisis' is well recognised and in addition to the Hawker Report there have been a number of investigations into the origin, nature and potential solutions to this issue. The cause of this under-funding has been attributed mostly to lack of available funds, poor financial and asset management processes and the need for councils to operate more efficiently. Dollery, Byrnes and Crase (2007b) provided interesting insights into the nature of the infrastructure crisis at the local level. In the first instance, they noted that the diversity of local government directly affects the degree of 'infrastructure crisis' a particular council may be experiencing. The size of a council area and road network, the nature of the local environment, population trends and densities, and the need to provide an increasingly wide range of services all present challenges in accurately determining the true nature of the infrastructure burden on an individual council. These challenges are further complicated by the fact that 'asset measurement and reporting in most local authorities is so bad as to render efforts to accurately measure the extent of the local infrastructure crisis almost impossible', and that this is due to 'conceptual and empirical difficulties in local asset assessment [where] many municipalities simply lack the requisite technical skills to cope with these difficulties' (Dollery, Byrnes and Crase 2007b, pp. 8–9) (see Chapter 7 of this thesis). Finally, it appears that the rural and remote councils are most affected by the 'infrastructure crisis' and it is unlikely that they will be able to redress this issue without significant financial assistance from the state and federal governments (Dollery et al. 2007b, p. 8).

#### 2.4.3 LOCAL GOVERNMENT SUSTAINABILITY

Fiscal stress caused by cost shifting, changing community expectations, limited revenue-raising opportunities and the 'infrastructure crisis' has raised serious questions about the financial sustainability of the local government sector in Australia. For instance, Dollery, Crase and Byrnes (2006a) summarised a number of theoretical approaches to explain the financial difficulties faced by local government. Much of the

discussion used ‘public finance arguments’ to explain the fiscal stress of councils, which can be broadly described as the ‘technical features of the current financial arrangements in the Australian federal system (for example, vertical fiscal imbalance, decline in the real value of inter-governmental grants and lack of a “growth tax” for local government)’ (Dollery et al. 2006a, p. 348). However, there are other plausible theoretical explanations, such as the taxonomy of local government failure and Wittman’s (1989, 1995) theory of ‘democratic market efficiency’. These are now discussed in turn.

Local government failure is based on the notion of government failure, defined as ‘the inability of a public agency (or agencies) in a given tier of government in a multi-tiered system of government to achieve its intended economic efficiency and equity objectives’ (Dollery, Crase and Byrnes 2006a, p. 342). Dollery, Byrnes and Crase (2007c) postulated that local government is more susceptible than state or federal governments to government failure, and that this is ‘hardly likely to inspire confidence that monies provided to councils will be expended effectively’. Wittman’s (1989, 1995) ‘democratic market efficiency’ theory reframes the existence of current financial arrangements and other regulatory institutions as positive and necessary in order to reflect voters’ preferences for systems that protect against local government failure. Dollery, Crase and Byrnes (2006a, p. 350) explained that the phenomenon occurs when ‘well informed median voters may induce higher tiers of government in the Australian federation to create agencies to scrutinise local government systems precisely because these voters are aware of the limitations of the local government political process’.

In practice, various state and federal initiatives have aimed to develop a methodology for measuring financial sustainability in local government in an effort to identify councils ‘as risk’. Dollery, Byrnes and Crase (2007c) critically evaluated five such projects from South Australia (*South Australian Financial Sustainability Review Board, 2005*), New South Wales (*Independent Inquiry Into The Financial Sustainability of NSW Local Government, 2006*), Queensland (*Queensland Size, Shape and Sustainability Approach 2005*), Western Australia (*Western Australia Systematic Sustainability Study, 2006*) and the *National Financial Sustainability Study of Local Government Report* prepared by PriceWaterhouseCoopers (PwC 2006).

The majority of these studies developed and applied in various ways performance indicators in the form of finance and accounting ratios to determine if particular councils were financially sustainable. Dollery, Byrnes and Crase (2007c, pp. 129–130) concluded that ‘it is not possible to define sustainability with any kind of precision [and] it cannot be captured adequately through performance indicators’. They went on to state that no ‘holy grail set of financial KPIs can be constructed with any confidence’ and that this is largely due to quality of data issues and the existence of different state systems for the regulation and collection of information relating to local government. Furthermore, they argued that, as with the ‘infrastructure crisis’, the diversity of the local government sector ‘precludes the use of a one-size-fits-all method of assessing municipalities’ in relation to financial sustainability. Therefore, it can be argued that a measure of local government sustainability with a wider scope is more appropriate as summarised in Table 2.13.

As shown in the table, Dollery, Byrnes and Crase (2008, p. 57) established a more holistic framework for measuring local government sustainability by identifying ‘external and internal factors that influence the long-run sustainability of local councils in Australia’.

**Table 2.13 Framework for Local Government Sustainability in Australia**

Sustainability Factors	Description
Demographic factors	Almost every aspect of a council's operation is affected by demographic trends. Population growth/decline rates impact on a council's revenue and expenses. For example, a rapidly growing area will need to provide adequate infrastructure to support new housing whereas, in areas of population decline, councils' efforts must turn to how funding will be provided to maintain and renew existing infrastructure.
Council revenue	Relates to horizontal and vertical fiscal imbalance, inter-governmental grants, limits to revenue raising clearly impacts on local government sustainability. Dollery, Byrnes and Crase (2008, p. 59) stated that 'by international standards, this is a comparatively narrow range of potential sources of finance'. They also stated that federal government's provision of tied grants directly to local government is likely to become an increasingly important source of local government funding and an emerging feature in the Australian federal system.
Council expenditure	Essentially this factor relates to cost shifting and the fact that local governments have experienced increased service responsibilities imposed on them by state and federal governments without the requisite funding being provided. It has been clearly demonstrated in the above discussion how cost shifting is causing significant fiscal stress for councils which impacts directly on sustainability.
Financial management	Proper financial and asset management will continue to be a key feature affecting the sustainability of councils and there is little doubt that improvements are needed in this area. However, as the key contemporary issue facing council in this area is the 'infrastructure crisis' then it is critical to note that 'a significant proportion of the stock of local infrastructure is reaching the end of its economic life around the same time ... [and that] it is widely recognized that local government cannot fund all the infrastructure renewal programs that will be required over the next decade' (Dollery, Byrnes and Crase 2008, p. 62).
Governance	Local government sustainability is directly related to the good governance of local government areas. Dollery, Byrnes and Crase (2008, p. 62) stated that 'the overwhelming majority of council 'failures', epitomised by the dissolution of local authorities by their respective Department of Local Government, are caused by internal factors, especially 'conflicted' elected bodies. Therefore, supporting and developing the capacity of high quality local democratic representation and decision-making are central to the sustainability of local government into the future.

*Source:* Adapted from Dollery, Byrnes and Crase (2008).

#### 2.4.4 CONTEMPORARY ISSUES FACING LOCAL GOVERNMENT

The legislative basis for local government in Australia and the fiscal stress experienced by this level of government show that, in practice, councils lack autonomy and the capacity to operate independently. State government laws have not only created local government, but they have established a regulatory framework in which councils must operate. The laws also make provision for the dissolution of a council and, in some cases, they do not guarantee the democratic nature of this level of government. Sansom

(2008, p. 26) contended that ‘it would also be possible for the states to make local councils simply “branch offices”, raising their own revenues through taxes and charges but with no elected members. However, to this point there has been no serious challenge to the continuation of democratically elected local government’. The fiscal stress experienced by local government also demonstrates this lack of autonomy and a degree of powerlessness within the Australian system of government. Councils are in some cases heavily dependent on grant funds from the state and federal government and/or are restricted in the way revenue can be raised. The Hawker Report (2003) clearly demonstrated that cost shifting and increased community expectations are placing considerable financial pressure on local government, as is the ‘infrastructure crisis’. There are ongoing efforts by ALGA, state associations and other groups to improve this financial situation of local government, and it appears that any gains to be made in this area will be directly related to local government’s approach to, and participation in, the inter-governmental network, as described by Chapman and Wood (1984) and discussed earlier.

## **2.5 ‘POWERLESSNESS’ OF LOCAL GOVERNMENT IN AUSTRALIA**

Local government in Australia experiences a degree of powerlessness. It has been argued that the sources of local government powerlessness can be described as existing on four levels. First, local government is not formally recognised as a political institution in Australia’s federal system of government through the Australian Constitution, despite the key role it plays in the provision of public products and services. Although recognised in other documents and in various ways, the issue of constitutional recognition remains a key strategic issue for the local government sector. Second, stemming from this factor, the legal status of local government in Australia means that it is wholly subservient to the states. Third, local governments lack the financial capacity to deliver the products and services that are expected by their communities. This is due to cost shifting and limited funding options for local government. Greater financial autonomy would enable local government to act more independently and not be so reliant on other levels of government for assistance. Finally, local government continues to face many challenges in developing and maximising its political influence and participating in discussions on a range of policy issues at the state and national levels. Powerlessness makes local government



vulnerable to *ad hoc* reform. Dollery and Dallinger (2007, p. 57) argued that ‘in almost all state and territory jurisdictions, Australian local government has been subjected to intense reform for the past two decades’. Table 2.14 compares local governance prior to federation with local government post amalgamation, using the democratic principles of responsiveness, representativeness, access and accountability.

**Table 2.14 Local Government Reform and Local Democracy**

<b>Democratic Principle</b>	<b>Description</b>	<b>Local Governance Prior to Federation</b>	<b>Local Government Post Amalgamation</b>
Responsiveness	‘A responsive government is aware of a community’s needs and expectations, and acts accordingly to meet these needs and to fulfil expectations’ (Dollery and Dallinger 2007, p. 61).	The emergence of local government was in response to basic needs of small communities to ensure their survival.	Large councils may be less efficient in responding community needs, given the diversity that may exist over a large local government area and/or large councils may become too removed from the communities.
Representativeness	The role of elected members is to accurately represent the views of their constituents. This requires them to be informed about local issues so they can participate in council decision-making in a meaningful way.	Local representatives would have been members of small communities who were acutely aware of local needs and expectations and whose primary role was to advocate on behalf the community.	The quality of representative democracy provided by larger local governments is comparably less than by smaller councils. This could result from elected members of larger councils being expected to represent a greater number of people across a wider area. This would reduce elected members’ ability to remain in touch with the needs and expectations of their constituents (Dollery 1997, p. 449).
Access and Accountability	‘Being able to access local governments and hold elected members accountable for their actions’ (Dollery and Dallinger 2007, p. 61).	Given the size of these emerging communities, people would have had ready access to local representatives advocating on their behalf.	People may find it more difficult to access elected members of larger councils to discuss their concerns. Having ready access to elected members enables people to hold local governments accountable in relation to decisions made, and the impact of decisions on their cause or on a constituency.

Whilst subsequent chapters of this thesis deal with local government reform in Australia in more detail, Table 2.14 illustrates that amalgamation of councils could be seen as contrary to the democratic principles of responsiveness, representativeness, access and accountability that local government was based on in its beginnings prior to federation.

## **2.6 CONCLUDING REMARKS**

This chapter has sought to provide contextual information about the federal system of government in Australia. Included in this discussion was a description of inter-governmental relationships at the federal level and constitutional change in Australia. In addition to this, the role of local government in Australia from historical and contemporary perspectives was discussed, as was the legislative base for local government and the fiscal stress caused by cost shifting, community expectations and limited revenue raising opportunities. There seem to be four key reasons why local government experiences a degree of powerlessness in Australia, with particular reference to reform processes imposed on local government by the states. How these reform processes could adversely affect the principles of local democracy was briefly considered and will be addressed in more detail in subsequent chapters.

### 3. CONTEMPORARY LOCAL GOVERNMENT REFORM IN AUSTRALIA

#### 3.1 INTRODUCTION

Chapter 2 described various levels of powerlessness that local government experiences within the Australian federation and demonstrated that this lack of autonomy makes local government vulnerable to ad hoc reform processes. Whilst the emphasis of this thesis is on structural reform in local government, various other types of reform have been implemented, including functional, financial, jurisdictional, organisational and managerial reforms (Dollery, Garcea and LeSage Jr 2008, pp. 6–7).

In an effort to build on the existing knowledge of these reforms, Chapter 3 aims to critically evaluate contemporary local government reform programs in Australia. These initiatives occurred between 2000 and 2010 and relate to the issue of local government sustainability considered in Chapter 2. These examples of public policy in local government reform will be analysed in terms of their determinants, objectives, nature, scope, and effects (Dollery, Garcea and LeSage Jr 2008, pp. 6–7).

This chapter consists of seven main parts. Section 3.2 considers local government reform in the analytical framework developed by Dollery, Garcea and LeSage Jr (2008). Section 3.3 provides a brief historical summary of local government reform activities throughout Australia during the 1990s. Section 3.4 explores in detail the concept of local government sustainability by analysing the national policy context of local government reform through the prism of the 2001 Commonwealth Grants Commission's *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, the 2003 House of Representatives Standing Committee on Economics, Finance and Public Administration's *Rates and Taxes: A Fair Share for Responsible Local Government (the Hawker Report)* and PriceWaterhouseCoopers' *National Financial Sustainability Study of Local Government* (PwC 2006). Section 3.5 tackles the same question at the state level by means of the South Australian Financial Sustainability Review Board's *Rising to The Challenge: Towards Financially Sustainable Local Government in South Australia* (2005), the Independent Inquiry into the Financial Sustainability of New South Wales Local Government's *Are Councils Sustainable? Independent Inquiry into the Financial Sustainability of NSW Local*

*Government* (2006), the Western Australian Local Government Association's *Systemic Sustainability Study, In Your Hands: Shaping the future of Local Government in Western Australia, Final Report* (2006), and the Local Government Association of Tasmania's *A Review of the Financial Sustainability of Local Government in Tasmania* (2007). Section 3.6 analyses the recommendations of these inquiries using the local government sustainability framework developed by Dollery, Byrnes and Crase (2008), and discusses the implications of this policy focus for local government in Australia. Section 3.7 provides a commentary on the implementation of recommendations from these inquiries into local government, as well as a description of some further inquiries that have occurred at the state level in Tasmania, Western Australia and New South Wales. These inquiries include the Southern Tasmanian Councils Authority's *Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania* (2011), the Property Council of Australia's (Tasmanian Division) *Deloitte Access Economics Report On Local Government Structural Reform In Tasmania* (2011), the Western Australian Metropolitan Local Government Review Panel's *Metropolitan Local Government Review In Western Australia* (2011), and New South Wales Government's *Independent Local Government Review In NSW* (2013). The chapter ends with some brief concluding remarks in Section 3.8.

### **3.2 FRAMEWORK FOR LOCAL GOVERNMENT REFORM**

The analytical framework for local government reform developed by Dollery, Garcea and LeSage Jr (2008, pp. 6–7) used in this chapter is summarised in Table 3.1.

**Table 3.1 Local Government Reform Analytical Framework**

Focus of Analysis	Description
Determinants of reforms	Those issues which underpin the rationale and design of a local government reform process. Determinants form part of the reasons why reforms were instigated, and influence how reform processes were implemented.  Dollery, Garcea and LeSage Jr (2008, p. 6) contend that these determinants are identified by observing the views and opinions of governments/people involved in the policy-making process and the various ‘political, economic, demographic, legal, and ideational factors’ that influenced these views and opinions.
Goals and objectives of reforms	Refers to what governments sought to achieve by implementing a reform process.
Nature and scope of reforms	Dollery, Garcea and LeSage Jr (2008, pp. 6–7) describe five types of reform: <b>Structural reforms</b> - ‘changes to the boundaries and the number or types of municipal governments or municipal authorities’. <b>Functional reforms</b> - ‘changes in the number or types of functions performed by municipal governments through various means including the realignment of functions between municipal government and other orders of government or other types of local governments’. <b>Financial reforms</b> - ‘changes to the financial or budgetary frameworks of municipal government ... [including] changes to revenue sources ... expenditures ... and the general management of their financial resources.’ <b>Jurisdictional reforms</b> - ‘changes to the powers (that is, authority and autonomy) bestowed upon municipal governments either in a constitution or in a statute.’ <b>Organisational and managerial reforms</b> - ‘changes to the legislative, executive, management, and administrative structures and processes of municipal governments.’
Effects of reforms	Specifically how a reform process altered <i>municipal capacity</i> - ‘the capacity of municipal governments to perform their core functions’, and <i>municipal democracy</i> - ‘the extent to which they perform their functions according to fundamental tenets of democracy’. Analysing the effects of local government reform can also be contextual so that the impacts of reform on intergovernmental relations are explored. Such an analysis makes specific reference to changes in functional interdependencies, roles, responsibilities and accountabilities between each level of government (Dollery, Garcea and LeSage Jr (2008, pp. 7–8).

Source: Adapted from Dollery, Garcea and LeSage Jr (2008, pp. 6-7).

### 3.3 AUSTRALIAN LOCAL GOVERNMENT REFORM IN THE 1990s

Local government reform in the early 2000s represented a continuation of significant reform activities that occurred in each state during the 1990s. This section provides a brief historical summary of local government reform activities during this time throughout Australia with a focus on structural reform, specifically amalgamations.

In 1990, the newly elected Goss Labor government commissioned the Electoral Administrative Review Commission (EARC) to ‘undertake investigations into the whole of the Local Authority electoral system in Queensland ... [and] whether the existing boundaries of the areas of Local Authorities are the most appropriate having

regard to fair and equitable representation for all electors and the proper, economically viable and efficient discharge of the responsibilities of each Local Authority' (EARC 1991, p. 1). This comprehensive review of local government in Queensland culminated in recommendations for amalgamations or major boundary changes to 27 councils throughout the state (EARC 1991, p. 5). Prasser (2007, p. 4) stated that the EARC recommendations 'met considerable opposition' resulting in the Goss government appointing the CEO of the Local Government Association of Queensland at the time, Mr Greg Hoffman, as a Local Government Commissioner (Tiley and Dollery 2010, p. 6). In 1992, the work of the Commissioner Hoffman commenced. His initial remit was to 'independently review... the electoral review Commission's recommendations based on ministerial reference, with an emphasis on growth areas, local governments with financial difficulties and where reform pressures generally existed' (MAGLGR 1995, p. 4.9). Tucker (1999, p. 10) described the Commissioner's approach as a 'highly consultative process which, combined with detailed demographic, economic, and administrative research, culminated in impressive reports'. Tucker also claimed that the Commissioner 'mostly recommended full amalgamation' and the government began implementing his recommendations until there was a change in government in 1996.

Following the Queensland State Government election of 1996, the incoming Borbidge National-Liberal government terminated the role of Local Government Commissioner, by which time there was a reduction in councils from 134 to 125, with most of these amalgamations occurring in the coastal areas of Queensland. The Borbidge government introduced a process that effectively made any further amalgamations very difficult to achieve. Amalgamations could be implemented only through a referral by the Local Government Minister to a Local Government Electoral and Boundaries Review Commission. This would occur only if the Minister was 'convinced that there was considerable community and clear local government support' (Prasser 2007, p. 4). Furthermore, any proposal for amalgamation was also subject to a local referendum, although the outcome of any such referendum could be upheld by the Parliament.

Limited amalgamations occurred in NSW during the 1990s, with the exception of ten councils across the state being reduced to five between 1999 and 2001 (DLG 2004, p. 13). The Ministerial Advisory Group on Local Government Reform (MAGLGR) (1995, p. 4.6) argued that 'NSW has been the most efficient of the States in reducing the

numbers of Local Government areas. By 1990, it had almost half the Councils that it had at the beginning of the century’.

In Victoria, the election of the Kennett Liberal government in 1992 precipitated a significant structural reform process that reduced the number of councils in Victoria from 202 to 78. This process was facilitated by the *Victorian Local Government Board of Review* (VLGBR), which was created in 1993 and given the task of taking into account ‘social, economic and technological change and [to] propose a new framework for local government in Victoria which better reflected the needs of local communities in the late twentieth century and beyond’ (Burke and Walsh 1998, p. 72). The VLGBR consisted of eight people and included former councillors, council chief executive officers, state government bureaucrats and a consultant with expertise in local government. The VLGBR was supported by a small staff of between four and eight employees and the Board also had access to state government officers in various departments to assist with mapping, the production of reports and preparation of technical and statistical information on the existing and proposed new council areas.

Burke and Walsh (1998, p. 72) contended that ‘boundary changes and municipal restructuring was the predominant activity of the board’, and any review of council boundaries by the VLGBR was ‘initiated by a reference from the Minister for Local Government’. Councils and other interested stakeholders were able to make submissions to the board and/or attend community and stakeholder engagement activities as part of the VLGBR’s consideration of each Ministerial reference. Burke and Walsh (1998, p. 74) argued that ‘the board received more than 60 000 items of correspondence, over 5 000 of which were detailed submissions [and] the Chair and/or members of the board participated in over 500 meetings with councils, community groups and individuals’. Key themes that emerged from this consultation included concerns about the impact of amalgamation on the quality of councillor representation over larger areas and need for greater community input into council decision-making. Whilst there can be no doubt that such a significant structural reform process would have had both strong critics and supporters, the Kennett government was of the view that this reform had the strong support of the wider community, as evidenced by the Minister of Local Government commenting that ‘I found it very pleasing that local

government reform was widely seen as one of the Government's outstanding achievements' (Hallam, 1998, p. 99).

In 1994, the Brown Liberal government in South Australia established a Ministerial Advisory Group on Local Government Reform to undertake a review of the local government sector in South Australia. The group's activities culminated in a report to the government in 1995 entitled *Reform of Local Government in South Australia: Councils of the Future*. A key theme in the recommendations from this review was amalgamation of local government areas. The group stated that 'it has been strongly persuaded by the view that broader boundaries are appropriate and an essential component of achieving significant reform and improved Local Government effectiveness' (MAGLGR 1995, p. iii). The reasons cited for this view included changing community structures, increased communication options, broader local government functions needing larger regions, proven economies of scale in relation to various council functions, increased financial viability, greater consistency in decision making, an improved focus on participation and increased accountability (MAGLGR 1995, iii-iv). As a result, the following recommendations were made in relation to structural reform of South Australian local government at that time:

- Based on broad retail, social and economic communities, the number of metropolitan Adelaide Councils be reduced to 11 [from a total of 29], and
- Based on broader communities of interest and regional characteristics, the number of non-metropolitan Council be reduced to 23 [from a total of 87].  
(MAGLGR 1995, p. xi)

This represented a suggested 70.6% reduction in the number of councils within the state. However, as there was a lack of community support for the group's recommendations, the government opted for a 'voluntary approach to structural reform' (LGBRB 1998, p. 9). Subsequently, the government established a Local Government Boundary Review Board to facilitate that voluntary approach; between January 1996 and September 1998 there was a reduction in councils from 118 to 68 which 'was achieved either on a voluntary basis by the Councils themselves, or with the support of the Board' (LGBRB 1998, p. 39).

In Western Australia, the Liberal government of Richard Court in 1994 established the Structural Reform Advisory Committee (SRAC) for local government with 'the brief to



consider the extent and means to which councils are able to provide for a community of interest and also be capable of delivering efficient and effective services to the community, having regard to the requirements and implications of the new Local Government Act' (SRAC 1996, p. 1).

When council boundaries were reviewed by SRAC, the committee's conclusions stood in stark contrast to the Victorian experience. In fact, the Committee referred to the state-imposed amalgamations in Victoria by stating that 'the Committee believes that there is scope for the rationalisation of local government boundaries, but there is no justification for a wholesale Government driven agenda of enforced amalgamations, as happened in Victoria. Boundary anomalies need to be addressed by local governments and their communities' (SRAC 1996, p. 19). In essence, SRAC acknowledged that boundary issues did exist. However, the Committee considered that these issues would be best addressed by councils and their communities through a 'bottom up' approach, rather than by a process of council amalgamations mandated by the state. However, that Committee also stated that reform was required and that 'local governments must take a proactive approach' and that 'if this initiative is not grasped in the short to medium term, there is the possibility of decisions being taken out of local government's hands' (SRAC 1996, p. 7).

In 1989, the Tasmanian Labor Government of Fields established the 'Modernisation Agreement' with the Local Government Association of Tasmania. One of the aims of this agreement was a review of local government boundaries, which was undertaken through a Local Government Advisory Board (LGAB). Haward and Zwart (2000, p. 35) noted that the LGAB published a 'Final Report' in 1992 which recommended the reduction in the number of councils from 46 to 29. This recommendation was accepted by the new Groom Liberal government elected in February 1992.

In 1997, the Rundle Liberal government established another Local Government Board under the *Local Government Act 1993* and instigated a further reform process. This action was taken within the context of a *Directions Statement* document released by the government, which proposed a further reduction of councils to 'no more than 15' (Howard and Zwart 2000, p. 43). In the same year, the report *Tasmania into the 21<sup>st</sup> Century* ('Nixon Report') was published, which was the result of a joint

Commonwealth-State Inquiry into the Tasmanian economy. This report also suggested a reduction of councils by recommending that ‘there should be a maximum of eight local government authorities on mainland Tasmania’ (Nixon 1997, p. 78). Meanwhile the draft report from this newly-formed Local Government Board recommended a reduction in the number of councils to 11. This recommendation, including the proposed changes to particular council areas, was criticised at both the local and state level. The final outcome of this review was the Rundle government revisiting the Local Government Board’s recommendations and altering the structural reform proposed for some councils. This effectively reduced the number of councils to 14. However, a legal appeal by some of the affected councils was upheld and a change of government in 1998 saw this next stage of the structural reform of local government in Tasmania abandoned (Haward and Zwart 2000, pp. 42–43).

Reform other than amalgamations also occurred during the 1990s. Some examples of these reforms were discussed in Chapter 2. For example, functional reform through the ongoing diversification of local government services, and the increased emphasis on ‘services to the people’ continued during this decade. In an interim report published as part of the *Independent Inquiry into the Financial Sustainability of NSW Local Government* (2006) it was argued that ‘over the decade 1996 to 2006 ... nominal council expenditure on housing and community amenities and public order and safety grew by 80 per cent. In the cases of community services and education, and recreation and culture, the figure was 50 per cent’ (Marshall 2008, p. 24).

In relation to jurisdictional reform during the 1990s, the key change was the introduction of new local government acts in each state. This new legislation had an enabling effect on local government, allowing councils more independence and autonomy whilst remaining within the legislative context of being a mechanism of the state. Wensing (1997, p. 43) argued that these acts ‘have given councils general competence powers that enable them to do whatever is necessary to better meet local community needs and aspirations’.

These new acts in each state engendered organisational and managerial reforms in local government. Legislative requirements for corporate and operational plans, annual reporting, codes of conduct and standard meeting procedures required that councils

improved their management systems, capacity and qualifications of key personnel (Marshall 2008). These requirements also had significant implications for budget processes; councils were now required to consider the strategic financial implications of their long-term objectives (Baker 2003).

Marshall (2008) summarised organisational and managerial reforms in Australia using the themes of managerial reform, internal restructuring and public participation. He argued that this 'has been the most substantive dimension of Australian local government reform in terms of determining what municipalities do and how they do it' (Marshall 2008, p. 38). Based on the New Public Management (NPM) principles implemented by federal and state governments, managerial reform in local government focussed on improving the efficiency and effectiveness of councils. This was achieved through improved management systems and processes, improved decision-making and the development of corporate approaches to local government operations.

The new focus upon the professional management of councils led to a redefinition of the roles for councillors and senior management through internal restructuring. Marshall (2008) observed that elected councillors were expected to take a more strategic role, akin to the functions of a board of directors in a private company, whilst the CEO was to be given considerable delegation to manage the day-to-day operations of the council.

Finally, Marshall (2008) argued that this new legislative framework established an increased emphasis on community participation. Abundant evidence suggests that many councils now make genuine attempts to engage citizens in council processes. For example, Grant, Dollery and Kortt (2011, p. 2) observed that 'all Australian state jurisdictions have implemented community engagement strategies [for local government] as an increasingly central element to planning procedures'. Furthermore, in their 'overview and characterisation of the legislative and regulatory frameworks for community engagement across Australian local government jurisdictions' in council's planning procedures, they found that in each of these jurisdictions community engagement is either a legislative requirement, or alternatively, that there is an expressed commitment to this practice in some form. Community participation in this type of council activity aims to improve the efficiency and effectiveness of councils by

assisting councils in the development of a future direction, goals and strategies that are responsive to the views and aspirations of their constituents.

In terms of financial reform, there was a temporary reversal of the strengthening relationship between local federal governments with the election of the Howard government in 1996. Marshall (2008, p. 33) observed that from 1996 to the early 2000s ‘the Commonwealth’s evolving role in municipal finance took a retrograde step’ as the Howard government ‘dismantled much of its Labor predecessor’s commitment to municipal development’. By 2001, this approach had changed due to an acknowledgement of the important role councils play in ensuring the economic vitality of rural areas throughout Australia (Marshall 2008). This led to the introduction of the *Roads to Recovery* program and ‘the emergence of a new period of cooperative federalism between the Commonwealth, the states and local government’ (Marshall 2008, p. 34). It was also during the 1990s that ‘cost shifting’ began to dominate the public policy debate in relation to local government’s relationship with the state and federal governments. In the 2000s, cost shifting and the broader question of local government sustainability was subsequently acknowledged and investigated through a range of inquiries, which are discussed in detail below.

### **3.4 CONTEMPORARY AUSTRALIAN LOCAL GOVERNMENT REFORM**

At the national level, there were three key inquiries into local government sustainability. Each of these inquiries is analysed below in terms of their determinants, goals and objectives, nature and scope, and effects (Dollery, Garcea and LeSage Jr 2008, pp. 6–7).

#### **3.4.1 REVIEW OF THE OPERATION OF THE LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995 (2001)**

In 2001, the Commonwealth Grants Commission (CGC) delivered its Final Report, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*. As mentioned in Chapter 2, this federal Act governs the payment of federal Financial Assistance Grants (FAGs) to local government through state-based Local Government Grant Commissions (LGGCs) according to a set of national principles (see Table 2.3). Dollery, Byrnes and Crase (2008, p. 53) described this review as ‘the genesis of contemporary concern with local government sustainability in Australia’ and a process

that ‘lay the foundations for subsequent investigations into local government sustainability’. As per a statutory requirement, this review was requested by the Minister for Finance and Administration on behalf of the Minister for Regional Services, Territories and Local Government. The Terms of Reference (ToRs) for this review included the following:

- whether the current arrangements achieve the Commonwealth’s purposes and goals set out in the Act;
- the appropriateness of the National Principles;
- whether the methods and policies of the LGGCs are consistent with the National Principles; and
- a range of other issues specified in Section 17 of the Act, dealing with:
  - eligibility for assistance;
  - changes in the functions or responsibilities of local government; and
  - the impact of the Act on local government revenue raising and State assistance to local government.

The terms of reference expressly precluded us [the CGC] from examining:

- the amount the Commonwealth makes available for local government; and
  - the interstate distribution of that amount.
- (CGC 2001, p. 2)

There were two stages to the CGC review. Part 1 involved the circulation of a discussion paper and meetings with relevant government agencies (state and federal), local government associations, local governments and other interested individuals/groups to seek comment and feedback regarding the review (150 submissions were received). This stage culminated in a draft report ‘to inform participants of our preliminary thoughts on the issues’ (CGC 2001, p. 4). Part 2 consisted of a conference in Canberra and the invitation to provide written submissions in response to the draft report (a further 50 submissions were received).

Chapters 3 and 4 of the Final Report addressed the first three components of the ToRs. The CGC concluded that the arrangements in place for the distribution of FAGs were achieving the intended purpose of providing financial assistance to local government and that the levels of funding provided be determined in part by a council’s capacity to raise revenue and the costs in delivering services to the community. However, improvements were suggested as summarised below.

The CGC identified five purposes and two goals in the Act, including financial capacity, equitable level of services, certainty of funding, efficiency and effectiveness, Aboriginal Peoples and Torres Strait Islanders, transparency and accountability, consistency of

methods. A summary of the evaluation conducted by the CGC for each of these purposes and goals is contained in tables 3.2–3.8, including any recommended reforms. Also included in these tables are some the likely effects of these reforms on local government.

**Table 3.2 Financial Capacity**

<b>Purpose/goal</b> Financial capacity
<b>Description in the Act</b> 'to improve the financial capacity of local governing bodies' Although not defined in the Act, the CGC understood the term 'financial capacity' in terms of the vertical fiscal imbalance experienced by each council and the role of FAGs in addressing this issue.
<b>Relevant National Principles/other elements of the Act</b> <ul style="list-style-type: none"> <li>• Minimum grant</li> <li>• Identified road component</li> </ul>
<b>Reform proposed by the CGC</b> Nil. The CGC considered that the purpose was being achieved and did not suggest any improvements. An opportunity was missed in this evaluation by not considering the adequacy of the total funding provided by the federal government through this Act.
<b>Effect on local government</b> Not applicable

*Source:* Adapted from CGC (2001, pp. 13–14).

**Table 3.3 Equitable Levels of Services**

<b>Purpose/goal</b> Equitable level of services
<b>Description in the Act</b> 'to improve the capacity of local governing bodies to provide their residents with an equitable level of services' The CGC understood this purpose as providing more funds to relatively disadvantaged councils due to limited capacity to raise revenue or the higher costs associated with providing services to the community.
<b>Relevant National Principles/other elements of the Act</b> <ul style="list-style-type: none"> <li>• Horizontal equalisation</li> <li>• Effort neutrality</li> <li>• Other grant support</li> <li>• Minimum grant</li> </ul>
<b>Reform proposed by the CGC</b> The key issue highlighted in relation to this purpose was the need for LGGCs to more accurately and consistently assess councils' needs. The CGC stated that 'LGGCs are not comprehensively assessing needs. They do not assess all areas of expenditure and revenue, they do not assess all of the influences that affect the cost of providing services or the capacity to raise revenue, and some of them do not assess relative advantage and relative disadvantage' (CGC 2001, p. 17). The impact of this reform would be financial in nature as it has the potential to affect funding levels for councils.
<b>Effect on local government</b> A more comprehensive and robust approach to the assessment of councils' needs would ultimately improve the distribution of federal funds to those councils in most need.

*Source:* Adapted from CGC (2001, pp. 14–23).

**Table 3.4 Certainty of Funding**

<b>Purpose/goal</b> Certainty of funding
<b>Description in the Act</b> 'to improve the certainty of funding for local governing bodies' The CGC understood this purpose as providing ongoing funding to the local government sector.
<b>Relevant National Principles/other elements of the Act</b> <ul style="list-style-type: none"> <li>• Guarantee of FAGs (General Purpose and Local Roads) in sections 9 and 12.</li> <li>• Associated escalation arrangements (sections 9, 10, 12, 13).</li> </ul>
<b>Reform proposed by the CGC</b> Nil. Whilst the CGC did comment on the need to balance grant stability with equalisation assessments, the commission supported the current arrangements that allow LGGCs to exercise discretion in determining the right balance of these factors.
<b>Effect on local government</b> Not applicable

*Source:* Adapted from CGC (2001, pp. 23–25).

**Table 3.5 Efficiency and Effectiveness**

<b>Purpose/goal</b> Efficiency and effectiveness
<b>Description in the Act</b> 'to improve the efficiency and effectiveness of local governing bodies' The CGC noted that both definitions and instruments to measure efficiency and effectiveness have not been developed.
<b>Relevant National Principles/other elements of the Act</b> This purpose is not consistent with the effort neutrality principle.
<b>Reform proposed by the CGC</b> Nil. The CGC identified that national performance indicators were to be developed in support of this purpose. These indicators have not been developed.
<b>Effect on local government</b> Not applicable

*Source:* Adapted from CGC (2001, pp. 25–26).

**Table 3.6 Aboriginal and Torres Strait Islanders**

<b>Purpose/goal</b> Aboriginal peoples and Torres Strait Islanders
<b>Description in the Act</b> 'to improve the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities'
<b>Relevant National Principles/other elements of the Act</b> <ul style="list-style-type: none"> <li>• Aboriginal Peoples and Torres Strait Islanders national principle.</li> <li>• An assessment of the performance of local governing bodies in delivering services to Aboriginal and Torres Strait Islander communities through the National Report (Section 16(3)(c)).</li> </ul>
<b>Reform proposed by the CGC</b> The CGC highlighted the need to strengthen the Aboriginal Peoples and Torres Strait Islanders Principle 'to make explicit that the needs of all Indigenous people must be reflected in the assessments of the LGGCs' (CGC 2001, p. 28). The impact of this reform would be financial in nature as it has the potential to affect funding levels for councils. A need to develop performance measures for councils in delivering services to Indigenous people was also recommended to assist in assessing performance.
<b>Effect on local government</b> Ensuring the assessment of the needs of Indigenous people would ultimately improve the distribution of federal funds in support of improved service delivery to Aboriginal and Torres Strait Islander communities.

*Source:* Adapted from CGC (2001, pp. 26–28).

**Table 3.7 Transparency and Accountability**

<b>Purpose/goal</b> Transparency and accountability
<b>Description in the Act</b> 'to increase the transparency and accountability of the allocation of funds to local governing bodies' The CGC understood this goal as enabling councils to better understand how FAGs are calculated (transparency) and the LGGCs being required to disclose relevant information for councils regarding their grant, how it was calculated and how does it compare with FAGs provided to other councils.
<b>Relevant National Principles/other elements of the Act</b> Sections of the act relating to reporting requirements in the National Report.
<b>Reform proposed by the CGC</b> The CGC suggested improved reporting in LGGCs' annual reports to include: <ul style="list-style-type: none"> <li>• 'the grant outcomes of all LGBs [local governing bodies] in the State;</li> <li>• the expenditure and revenue assessments of all LGBs in the State; and</li> <li>• the key drivers of LGGCs' expenditure and revenue assessments.'</li> </ul> (CGC 2001, p. 29) It was also suggested that the National Report include more than descriptive information on the LGGCs' methods for calculating FAGs such as 'how those approaches relate to and satisfy the National Principles, and analysed the influences on and trends in grant outcomes across LGBs and States' (CGC 2001, p. 29).
<b>Effect on local government</b> Improved transparency and accountability would contribute to the local government sector having access to more information about the distribution process for FAGs which would improve councils' overall understanding of the process.

*Source:* Adapted from CGC (2001, pp. 28–29).

**Table 3.8 Consistency of Methods**

<b>Purpose/goal</b> Consistency of methods
<b>Description in the Act</b> To promote 'consistency in the methods by which grants are allocated to achieve equitable levels of services' The CGC's interpretation of this goal related to the consistency of the LGGCs' methods of assessment when determining FAGs with the National Principles.
<b>Relevant National Principles/other elements of the Act</b> The CGC found consistency between LGGCs' assessment methods and two of the National Principles (Minimum Grant and Effort Neutrality). Discrepancies were identified in relation to Horizontal Equalisation, Other Grant Support and Aboriginal Peoples and Torres Strait Islanders.
<b>Reform proposed by the CGC</b> The CGC suggested that a more consistent approach to LGGCs' assessment of councils' needs, expenditures and revenues and the application of the Other Grant Support Principle.
<b>Effect on local government</b> Greater consistency between the assessment methods of the LGGCs and the National Principles would facilitate a more effective funding program in delivering the stated intentions of the Act.

*Source:* Adapted from CGC (2001, pp. 29–31).

Whilst the CGC did determine that 'the intentions of the Commonwealth in providing funding assistance for local government are being achieved' (CGC 2001, p. 32), a new model for administering the funds would provide a 'clear relationship between the purposes [of the Act] and the funds provided' (DOTARS 2001, p. 5). This model consisted of three separate pools of funds (Per Capita pool, Local Roads pool and



Relative Needs pool). It was argued that these proposed changes would also precipitate amendments to the National Principles, and changes to the methods used by LGGCs to calculate the FAGs, which would ultimately alter the amount of funding provided to councils.

In relation to the other matters specified in Section 17 of the Act, it was recommended that the eligibility for assistance be maintained and it was noted that there was a significant change in the functions or responsibilities of local government with an increased focus on ‘human services at the expense of traditional property-based services (particularly roads)’ (DOTARS 2001, p. 07). It was also noted that FAGs had not affected the revenue-raising activities of councils in terms of taxes and charges. However, the CGC did find a relative decline in state assistance ‘from about 15 per cent of local government revenue in 1974–75 to 7 per cent in 1997–98’ (CGC 2001, p. xiii.).

This demonstrates that the key contribution of the CGC inquiry was a call for a more targeted FAGs program and the improved assessment of councils’ funding needs. It also highlighted examples of cost shifting through an expanding scope of ‘services to people’ and a reduction in real terms in funding support from the states. Subsequent to this inquiry the issue of cost shifting then becomes a key focus of the Hawker Report (2003).

#### 3.4.2 RATES AND TAXES: A FAIR SHARE FOR RESPONSIBLE LOCAL GOVERNMENT (THE HAWKER REPORT) (2003)

In 2003, the House of Representatives Standing Committee on Economics, Finance and Public Administration Committee delivered its final report *Rates and Taxes: A Fair Share for Responsible Local Government (the Hawker Report)*. Whilst the initial focus of this investigation was on cost shifting in local government, the Hawker Report ‘added steadily to its terms of reference and eventually considered almost the entire spectrum of local government activity’ (Dollery, Byrnes and Crase 2008, p. 54). In terms of its contribution to the discussion of sustainability in local government, the Hawker Report has been described as reinforcing ‘many of the concerns raised in the CGC (2001) Report and thereby add[ing] impetus to the growing awareness of financial distress in Australian local government’ (Dollery et al. 2008, p. 54). The Australian Local Government Association (ALGA) stated that this report was the result of

lobbying, which began in 2000, for the federal government to take some action on cost shifting. In 2001, the Howard government made an election promise to conduct an inquiry if re-elected (ALGA, 2009b).

The Inquiry was formally requested in 2002 by the Minister for Regional Services, Territories and Local Government, the Hon. Wilson Tuckey, and the ToRs included consideration of the following:

1. Local government's current roles and responsibilities.
2. Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.
3. The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level including opportunities for councils to work with other councils and pool funding to achieve regional outcomes.
4. Local government expenditure and the impact on local government's financial capacity as a result of changes in the powers, functions and responsibilities between state and local governments.
5. The scope for achieving rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.
6. The findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 of June 2001, taking into account the views of interested parties as sought by the Committee.  
(Hawker Report, 2003, p. xi)

The Inquiry commenced with an initial media release, followed by a letter to each council and other key stakeholders extending an invitation to submit a response to each component of the abovementioned ToRs (400 submissions were received). A Discussion Paper, *At the Crossroads: Inquiry into Local Government and Cost Shifting* was also prepared with a corresponding questionnaire (128 responses were received). Furthermore, a total of 17 public hearings were conducted across all states and territories. The recommendations from the Hawker Report were predominantly broad and conceptual in nature. In addition, they referred mainly to how relationships between local, state and federal governments could be improved through establishing various agreements and institutions that would ultimately facilitate a response to the well-known causes of cost shifting. A limited number of practical or technical solutions were proposed in response to cost shifting or the issue of local government sustainability. However, it can be argued that various types of local government reform initiatives could have precipitated from the implementation of the recommendations from the Hawker Report. A summary of the recommendations, potential reforms and some the likely effects of these reforms is provided in Table 3.9.

**Table 3.9 Summary of Recommendations – The Hawker Report**

Summary of Recommendation		Potential Reform						Potential Effects on Local Government
		Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
H1	<p>Recommended the development of a federal-state inter-governmental agreement which would aim to address the following:</p> <ul style="list-style-type: none"> <li>Defining councils' roles and responsibilities when delivering programs on behalf of state and federal governments.</li> <li>Considering the local context when developing policy priorities and strategies for funded programs.</li> <li>Appropriate funding and resources from state and federal government to local government so that councils can fulfil their role and responsibilities in local communities.</li> </ul> <p>Developing clear expectations in relation to what is required from each level of government in terms of the funding to be provided and expected program outcomes.</p>		✓	✓				<p>Would facilitate improved clarity of councils' roles and responsibilities and associated funding requirements when delivering programs on behalf of state and federal governments. May also enable federally funded programs to be administered with greater flexibility.</p> <p>Consideration would need to be given to how this agreement would be implemented and how compliance would be monitored.</p>
H2	Aimed at addressing the issue of local government representation from each state and the Northern Territory in developing this federal-state inter-governmental agreement.			✓				This would be an opportunity for local government to become more involved in policy development at the national level.
H3	Suggested a House of Representatives resolution that 'recognises local government as an integral level of governance of Australia'.				✓			Would contribute to strengthening local government's place in the Australian federation and act a precursor to constitutional recognition at the federal level (see Chapter 2).
H4	Recommended that local government should participate in the development of federal-state intergovernmental agreements, e.g. National Competition Policy, and that the states be obligated to pass on appropriate funding in circumstances where local government plays a role in program delivery as part of these agreements.			✓				Had the potential to provide local government with opportunities to negotiate directly with other levels of government for adequate funding levels when delivering programs on behalf of state and federal governments.

Summary of Recommendation		Potential Reform						Potential Effects on Local Government
		Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
H5	Addressed the need for federal and state government to pay rates.			✓				Provided a practical suggestion in relation to revenue-raising for local government.
H6	Recommended the development of a federal-state inter-governmental agreement which would aim to address the following: <ul style="list-style-type: none"> <li>• Recognise cost shifting.</li> <li>• Provide adequate funding for the responsibilities that have been devolved to local government.</li> <li>• Remove restrictions imposed by state governments on revenue-raising by councils, e.g. Rate capping, levies and charges and non-rateable land.</li> <li>• Develop 'local government impact statements' to highlight the financial impacts of state and federal government legislation.</li> </ul>			✓				Had the potential to address some of the underlying causes of cost shifting.  Consideration would need to be given to how this agreement would be implemented and how compliance would be monitored.
H7	Suggested that the mandate of the Australian National Audit Office include performance audits of the expenditure of Specific Purpose Payments (SPPs) to increase the accountability of state governments in the disbursement of federal payments to local governments.			✓				Would contribute to ensuring that federal funding is provided to councils as intended.
H8	Recommended that all SPP agreements contain: <ul style="list-style-type: none"> <li>• Objectives and measurable outcomes.</li> <li>• Relevant performance indicators.</li> <li>• Clearly defined roles and responsibilities.</li> <li>• A requirement that state governments report on the amount of funds to be provided to local governments.</li> <li>• Disclosures of any 'funding adjustments' to state governments should cost shifting practices be identified</li> </ul>			✓				Would act as potential preventative measures to minimise the likelihood of unfunded mandates and would also increase the accountability of the states in the provision of federal funding to local government.
H9	Aimed at addressing the need for councils to audit the condition of infrastructure and submit this information to the Commonwealth Grants Commission. This information could then be used in determining the appropriate levels of federal financial assistance grants (FAGs).			✓		✓		Could contribute to a more robust calculation of appropriate funding levels to councils and would also introduce better asset management practices in local government.

Summary of Recommendation		Potential Reform						Potential Effects on Local Government
		Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
H10	Suggested that any federal SPPs be conditional on 'the states not reducing their effort' in the program area concerned, e.g. Roads.			✓				Could provide a further preventative measure to unfunded mandates and to ensuring states fulfil their obligations as appropriate.
H11	Recommended establishing a national 'capacity building' agency that would provide councils with best-practice information on maximising revenue raising and 'cooperative planning and service delivery' and administer federal and state governments' best-practice awards.	✓		✓		✓		Could assist councils in numerous ways in building sustainability through a national exchange of innovative ideas in relation to both financial and non-financial aspects of councils' operations.
H12	Suggested the need for a federal Local Government Liaison Unit in order to: <ul style="list-style-type: none"> <li>Strengthen relationships between federal, state and local governments and local government peak bodies.</li> <li>Ensure information about new 'federal initiatives, policies and programs' of interest to local governments is readily available to councils.</li> <li>Provide a point of contact for feedback on the implementation of federal programs or any cost shifting concerns.</li> <li>Facilitate information exchange between federal and local government officers when required.</li> </ul>					✓		In addition to assisting councils administratively in delivering federally funded programs, a federal-local government liaison unit would also strengthen the direct relationship between federal and local governments.  This type of reform could also contribute to a strengthening of local government's role in the Australian federation.
H13	Aimed at addressing the potential effects of amalgamations or regional cooperation of councils on FAGs and suggests that current mechanisms that are in place to adjust FAGs be used to promote efficiencies through these types of structural reform processes where appropriate.	✓	✓					Warned against reliance on FAGs without due consideration of how amalgamations or regional cooperation could address financial sustainability issues.
H14	Recommended that the federal government continue partnering with local government to deliver federal programs and that, where possible, regional bodies such as regional organisations of councils also be engaged where capacity in 'regional planning and service delivery' is evident.	✓	✓					Would provide an incentive to councils in developing regional partnerships.

Summary of Recommendation		Potential Reform						Potential Effects on Local Government
		Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
H15	Suggested that all levels of government consider ways to address the 'tax on tax' effects arising out of the GST.		✓					Could create or allow for increased revenue to local governments.
H16	<p>Aimed at addressing the need for a new methodology for the distribution of FAGs to local government incorporating the following:</p> <ul style="list-style-type: none"> <li>• A national model for each consistently applied to all local governments.</li> <li>• A needs-based approach to the distribution of grants using equalisation principles.</li> <li>• Payment of funds directly to local governments.</li> <li>• The continuation of untied funds paid from 'one pool'.</li> <li>• Consideration of the local context as provided by Local Government Grants Commissions (LGGCs) in each state.</li> <li>• The application of a weighting for indigenous communities in recognition of disadvantage.</li> <li>• 'Appropriate acquittal arrangements'.</li> <li>• The development of a new model for FAGs as outlined by Professor Farish during the consultation process for this inquiry.</li> </ul>		✓	✓				Would offer some practical suggestions to ensure a more robust calculation of appropriate funding levels to councils and the effective distribution that continues to provide some flexibility. Some of these recommendations are consistent with the conclusions from the CGC (2001) review.

Summary of Recommendation		Potential Reform						Potential Effects on Local Government
		Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
H17	<p>Recommended a COAG summit in 2005 to report on implementation and to review issues affecting local government including:</p> <ul style="list-style-type: none"> <li>• Identification of SPPs paid direct to councils.</li> <li>• Issues arising out of the new tax system and the GST.</li> <li>• The use of penalties for states and territories that do not appropriately support local governments or inhibit the revenue-raising capacity of councils.</li> <li>• Strategies that address overlaps in service provision between levels of government.</li> <li>• Improved financial autonomy for councils 'free from policies that arbitrarily limit revenue raising capacity'.</li> <li>• The further development of a direct financial relationship between federal and local governments.</li> <li>• A national approach in 'evaluating infrastructure needs and requirements'.</li> <li>• Principles that reduce cost shifting and unfunded mandates.</li> </ul>		✓	✓				<p>Had the potential to address some of the financial and functional issues affecting council relationship with the state and federal governments.</p> <p>Consideration would need to be given to developing tangible actions that could be implemented and evaluated.</p>
H18	Suggested 'that the federal treasurer assume responsibility for the financial relationship with local government'.			✓				<p>Would provide a more direct link to the portfolio area of the federal government responsible for financial relations with the states, which could contribute to minimising the instances of cost shifting and increase the level of accountability in relation to the allocation of federal funds by state governments.</p>

Source: Adapted from Hawker Report (2003, pp. xvii–xxii).

Whilst the federal government did not support a number of the Inquiry's recommendations, it was announced that four initiatives would be implemented in response to the findings of the Hawker Report. These initiatives were (i) the development of an inter-governmental agreement on cost shifting; (ii) a Productivity Commission study on revenue options for local government; (iii) recognition of local government by the federal parliament; and (iv) a review of the identified the local roads component of the FAGs to address the disadvantage experienced by South Australia under the existing formula for calculating these grants (ALGA 2009).

#### 3.4.3 NATIONAL FINANCIAL SUSTAINABILITY STUDY OF LOCAL GOVERNMENT (2006)

In June 2006 ALGA, under the leadership of Councillor Paul Bell as President (ALGA 2010), commissioned PriceWaterhouseCoopers (PwC) 'to provide a high level strategic national study ... in order to provide an indication of the sustainability of the nationwide local government sector' (PwC 2006, p. 3).

PwC delivered its final report *National Financial Sustainability Study of Local Government* in November 2006. Financial sustainability was assessed by determining a council's 'ability to manage expected financial requirements and financial risks and shocks over the long term, without the use of disruptive revenue or expenditure measures' (PwC 2006, p. 96).

To develop this 'national picture' of local government sustainability, numerous financial ratios were calculated using the financial information of a representative sample of 100 councils across each state, and council size based on the Australian Classification of Local Governments (ACLG) categories. This 'accounting approach' to local government sustainability was first used by the consultancy firm Access Economics in state-based sustainability inquiries in South Australia, New South Wales, Western Australia and Tasmania (discussed in Section 3.5 below). PwC (2006) used data from these investigations and similar information from the Municipal Association of Victoria 'to provide an indicative estimate of the national sustainability gap and infrastructure backlog' (PwC 2006, p. 7). The national sustainability gap was calculated as the amount of additional funding required annually to reach the required amount of spending on infrastructure renewal as determined by annual depreciation expenses. The



infrastructure backlog was briefly referred to in Chapter 2, and relates to the historical under-funding of infrastructure maintenance and renewal by councils. This more quantitative methodology is in contrast to the previous federal investigations relating to the issue of local government sustainability. The project outcomes as stated in the ToRs for the study are listed below:

The purpose of the study is to develop a report which:

- Assists ALGA in collaboration with state and territory local government associations to develop a detailed plan to:
    - enable councils to better meet their fiscal obligations as well as the growing demand for infrastructure and services; and
    - provide a sound rationale and model for appropriate and targeted support to local government for consideration by other spheres of government.
  - Assesses the current and long-term viability of the local government sector at the national, state and local level.
  - Identifies the key financial issues affecting the financial sustainability of local government at each level.
  - Identifies the trends and/or differences between groups of councils based on specified characteristics using the Department of Transport and Regional Services (DoTARS) council categories.
  - Develops recommendations for improved financial sustainability including financial governance and potential sources of extra revenue.
  - Investigates the appropriateness of reform to intergovernmental transfers with a view to develop a new model for intergovernmental financial relations that will facilitate financial sustainability of local government.
- (PwC 2006, p. 157)

A total of five financial ratios and associated benchmarks were employed as indicators of financial sustainability, as summarised in Table 3.10.

**Table 3.10 Financial Sustainability Indicators**

<b>Financial Sustainability Indicators</b>	<b>Description</b>	<b>Benchmark</b>
Operating surplus (deficit) ( <i>total operating revenue less total operating expenses</i> )	Councils' ability to meet their operating expenses with their operating revenue stream.	Operating deficit of 10% of total revenue.
Interest coverage ( <i>earnings before interest and tax divided by borrowing costs</i> )	Councils' ability to pay interest on their outstanding debts.	Value of 3
Sustainability ratio ( <i>capital expenditure divided by depreciation</i> )	Net increase or decrease in a Council's asset base.	Over 1 – asset base increasing. Under 1 – declining asset base.
Current ratio ( <i>current assets divided by current liabilities</i> )	Councils' ability to meet short-term debt obligations.	Under 1 – more at risk of liquidity problems.
Rates coverage ( <i>total rates revenue as a proportion of total expenses</i> )	Councils' ability to cover their costs through their own tax revenue.	40% - adequate self-funding.

Source: PwC (2006, p. 159).

The key finding from the financial analysis of the 100 councils using the indicators described in Table 3.10 was that ‘up to 10–30% of councils nationally may face sustainability challenges’ (PwC 2006, p. 150) with the rural remote, rural agriculture and, to a lesser extent, urban fringe council types most likely to be at risk.

Furthermore, by extrapolating the data from the state-based investigations into local government sustainability, it was estimated that the sustainability gap was \$1.1 billion annually and the potential infrastructure backlog was approximately \$13.6 billion nationally. To address this backlog and annual underspend, a total of \$2.0 billion would be required annually (PwC 2006, p. 150).

Table 3.11 summarises the recommendations from the Report to address these findings. The recommendations were categorised into two types by PwC. The first category related to ‘internal reforms by some councils to improve their efficiency and effectiveness’; in the second category were a number of ‘suggested changes to intergovernmental funding for improved financial sustainability to primarily assist the types of councils with sustainability challenges’ (PwC 2006, p. 152).

**Table 3.11 Summary of Recommendations – PwC’s National Financial Sustainability Study of Local Government**

Summary of Recommendation	Potential Reform					Potential Effects on Local Government	
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
Internal reforms							
Improving efficiency, effectiveness and scale through implementing various strategies such as regional or shared service provision, outsourcing and use of state-wide purchasing agreements.		✓	✓				Provided an alternative to amalgamation for generating economies of scale in order to achieve the efficiencies required.
Expanding own-source revenue in partnership with the states through changing legislation that acts as a barrier such as rate pegging in New South Wales and to develop other independent sources of revenue (e.g. user pays, commercial pricing and special levies).			✓	✓			Would promote greater financial independence and autonomy for local government. Councils in some instances would be required to develop a more commercial approach and any increases in rates and charges may have political implications.
Set clear and appropriate priorities through: <ul style="list-style-type: none"><li>Long-term service plans to direct and prioritise the use of council resources in service delivery.</li><li>Being cautious when becoming involved in issues that require a regional, state or national response.</li><li>Identifying the operational costs associated with new infrastructure when considering projects funded through capital grants.</li></ul>		✓	✓		✓		Suggested that councils’ decision-making and financial management practices should be improved to reduce the likelihood of councils becoming, or continuing to be, unsustainable. The political dimension to these matters is also a key factor that needs to be considered.
Deepen asset management and financial capacity through: <ul style="list-style-type: none"><li>Improving councils’ asset and financial management capacity.</li><li>Implementing asset management plans and system that are linked to councils’ corporate direction.</li><li>Adopting a national approach to collecting local government financial and asset management data; and measuring the financial sustainability of councils.</li></ul>			✓		✓		In some cases, councils would require support through funding, resources and training to implement the necessary asset management practices and systems.
Reforms to inter-government funding							
Establish a new Local Community Infrastructure Renewals Fund (LCIRF) to fund the timely renewal of community infrastructure.			✓				Had the potential to provide the targeted funding needed to address a key issue affecting local government sustainability.

Summary of Recommendation	Potential Reform					Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	
<i>Revise the escalation methodology for FAGS 'from a mix of population growth and CPI to new escalation formula tailored more to local government cost movements (e.g. a combination of the ABS Wage Cost Index and Construction Cost Index coupled with population growth)'.</i>			✓			Would contribute to calculating funding levels for FAGs that are more responsive to councils' financial needs.
<i>Make funding for the Road to Recovery Program permanent, provide additional funds and apply an escalation formula using the Construction Cost Index.</i>			✓			Councils would be able to continue necessary improvements to local road networks, which equates to 80% of Australian public roads, and funding levels would be more consistent with councils' financial needs.
<i>State government to provide funding support to encourage the local council efficiency and asset management reforms given that some councils 'have inadequate in-house skills to improve efficiency and to establish robust asset management and financial plans'.</i>			✓		✓	Would improve the likelihood that the necessary asset management practices and systems would be implemented and would enable state governments to monitor the implementation of necessary reforms.

Source: Adapted from PwC (2006, pp. 150-154).

The recommendations of this Report did provide some practical solutions to address the issue of financial sustainability in local government and the type of reform proposed was broader than suggestions for financial reform. However, the more contentious issue regarding this Report prepared by PwC was the difficulties associated with using finance and accounting ratios to measure the sustainability of councils. Chapter 2 outlined how Dollery, Byrnes and Crase (2007c, pp. 129–130) examined these difficulties. PwC (2006) highlighted similar issues in the Executive Summary of its Report, stating that ‘our ability to accurately assess the financial viability and sustainability of different types of councils across Australia has been constrained by a range of data limitations including mixed approaches to measuring and recording financial data associated with inconsistencies between states, the infrequent asset re-valuations (typically 5 yearly), as well as differences in assumed asset lives impacting the accuracy of reported depreciation levels, and incomplete financial and asset management records particularly for smaller councils’ (PwC 2006, pp. 6–7).

### **3.5 STATE CONTEXT**

At the state level there have been inquiries into local government sustainability in South Australia, New South Wales, Western Australia, Tasmania and Queensland. These were separate, state-based inquiries into local government sustainability that were commissioned by different organisations. Whilst each of these inquiries were different in several aspects, they were all undertaken based on financial definitions of local government sustainability, accounting ratios and associated benchmarks using the Access Economics methodology. Given these similarities, rather than exploring each project’s methodology in detail, the discussion to follow focuses on providing contextual information on each of these state-based inquiries (with the exception of inquiry in Queensland, which is discussed in chapters 5 and 6), outlining the key findings, analyses the recommendations, and expands on the critique of this ‘accounting approach’ to local government sustainability.

3.5.1 *RIISING TO THE CHALLENGE: TOWARDS SUSTAINABLE LOCAL GOVERNMENT IN SOUTH AUSTRALIA (2005)*

This Inquiry was established ‘as part of a 9 point plan responding to rates concerns in August 2004’ (LGASA 2005, p. 1) and in response to a motion in the state parliament by the independent Member of Parliament Bob Such for the Local Government Association of South Australia to investigate various matters relating to local government including the number of metropolitan councils in South Australia, service delivery and rating models (LGASA 2005, p. 3).

The Inquiry commenced in February 2005 through the establishment of a Financial Sustainability Review Board (FSRB) (LGASA 2005, p. 1). Although commissioned by the Local Government Association, the FSRB was established as an independent body with a view ‘to act as an honest broker on key matters where different positions are evident about, and within, local government. Where necessary, the Review Board set itself to question conventional wisdom evident within the sector itself’ (FSRB 2005b, p. 115).

In August 2005 the FSRB in South Australia produced their final report *Rising to the Challenge: Towards Sustainable Local Government in South Australia*. Dollery, Byrnes and Crase (2008, p. 54) described this Inquiry as being the foundation of ‘the contemporary emphasis on financial sustainability’.

The aims of the Inquiry were:

- A. establish the **key issues** impacting in the financial sustainability of the local government system in SA and the current financial position of councils in this state; and
- B. identify **trends and future** challenges which may impact negatively or positively on the outlook for the financial sustainability of South Australian local government into the future.

The following matters were to be reviewed during the Inquiry:

- 1. **current infrastructure and services provided** to communities and maintained by local government, including the condition of infrastructure, costs and trends related to such infrastructure and services;
- 2. **local government’s current financial position** including external funding, rates revenue, debt management, fees and fines and other revenue/infrastructure sources including developer responsibilities and trends in these revenue/infrastructure sources;
- 3. **administration arrangement, costs and trends** and measures at a local, regional or state-wide level which may assist in reducing administrative and service provision costs;
- 4. the relationship between property valuations and rates and any **alternative funding/capacity options** worthy of future research/consideration;

5. the relevance to SA communities of issues raised in the report of the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Local Government and Cost Shifting (“the Hawker Committee”) to the Commonwealth Parliament **“Rates and Taxes: A Fair Share for Responsible Local Government”** (October, 2003); and
6. **any other such matter** as may be relevant to the overall aim of the Inquiry. (FRSB 2005b, p. 111)

The Inquiry published a Discussion Paper in March which established its parameters. The Discussion Paper was circulated to relevant stakeholders, including councils, the local government associations both in South Australia and interstate, relevant state and federal governments, industry and community groups (42 submissions were received in response). In May 2005, the Board delivered an Interim Report (23 submissions were received in response), which was then followed by public hearings/forums to discuss the outcomes of the Interim Report. The Final Report consisted of two volumes that were published in 2005. The first part, ‘Volume 1: Overview’, contained a summary of the findings and recommendations of the Inquiry. Part two, ‘Volume 2: Supporting Analysis’, provided background information and analysis (FRSB 2005b).

The key findings from the sustainability assessment of South Australian councils are summarised in Table 3.12 below.

**Table 3.12 Key Findings – Sustainability Assessment of South Australian Councils**

<b>Sustainability Criteria</b>	<b>Number of Councils</b>	<b>Percentage</b>
Unsustainable	26	38.2%
Vulnerable	7	10.3%
Minimally sustainable	10	14.7%
Moderately sustainable	5	7.4%
Substantially sustainable	10	14.7%
Very substantially sustainable	10	14.7%
<b>Total</b>	<b>68</b>	<b>100.0%</b>

*Source:* FRSB (2005a, p. 2).

Table 3.12 shows that approximately 49% of councils in South Australia were considered to be either unsustainable or vulnerable at the time of the Inquiry. In response to this issue and the other issues raised through the Inquiry process, the FRSB grouped its recommendations under seven categories. Table 3.13 illustrates the number of recommendations in each category and summarises these recommendations.

**Table 3.13 Summary of Recommendations – Rising to the Challenge: Towards Financially Sustainable Local Government in South Australia**

Summary of Recommendation	Potential Reform					Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	
<i>Defining Financial Sustainability (4)</i> These recommendations suggested a definition for financial sustainability within a legislative and policy context at the sector level.			✓			Provided a formal framework at the sector level for understanding financial sustainability. Strategies in response to the underlying determinants of financial sustainability are also required (as outlined in subsequent recommendations) to assist councils in moving forward towards a more financially sustainable position.
<i>Measuring Financial Sustainability (10)</i> These recommendations suggested the establishment of key financial indicators for assessing financial sustainability throughout the local government sector. These financial indicators were defined and an interpretation was provided of how they represent sustainability. In addition, suggestions were also made in relation to audit and accounting processes, reporting and financial performance targets.			✓		✓	Established finance and accounting ratios to measure sustainability of councils.
<i>Financial Governance Improvements (12)</i> These recommendations related to the following: <ul style="list-style-type: none"> <li>• Building the capacity of elected members and council officers in the area of financial governance.</li> <li>• Promoting greater consistency and transparency in relation to internal and external financial reporting.</li> <li>• The establishment, role and operation of audit committees with external membership.</li> <li>• Provided guidance in the practice of ‘economy and efficiency audits’.</li> </ul>			✓		✓	Addressed some of the operational and procedural aspects of the framework recommended. These recommendations could potentially have significant impacts on councils’ financial management and administrative processes, which may in turn require elected representatives and staff to develop greater capacity and improved skills.



Summary of Recommendation	Potential Reform						Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
<i>Policy Framework Improvements (15)</i> These recommendations suggested various technical improvements to: <ul style="list-style-type: none"> <li>• Financial governance and management frameworks.</li> <li>• Revenue and financing policies.</li> <li>• Service levels and resource allocation policies.</li> <li>• Asset and liabilities management policies.</li> </ul>			✓		✓		These suggested policy changes would precipitate further operational and procedural changes to financial and asset management practices of councils.
<i>Inter-Governmental Relations Reform (12)</i> These recommendations related to: <ul style="list-style-type: none"> <li>• State government policy and legislative improvements to maximise revenue-raising opportunities for councils.</li> <li>• Improving functional cooperation between councils.</li> <li>• Developing an improved understanding of costs associated with state imposed planning objectives, regulatory requirements, or service delivery expectations and standards.</li> <li>• Promoting greater collaboration and improved liaison between relevant state agencies and the local government sector through a range of measures.</li> </ul>		✓	✓				Could potentially increase the revenue stream available to councils and facilitate improved working relationships between councils and the state government. Improved inter-governmental collaboration could generate cost savings for the local government sector.
<i>First Steps (9)</i> These recommendations suggested initial actions towards implementing the inquiry's recommendations: <ul style="list-style-type: none"> <li>• Provided policy frameworks and professional networking opportunities aimed at improving financial management practices within councils.</li> <li>• Proposed various amendments to the Local Government Act 1999 and administrative improvements in relation to financial and asset management standards and practices.</li> <li>• Considered how the local government sector would implement these recommendations and monitor progress over time.</li> </ul>						✓	Provided an implementation plan for the state government and local government sector for the implementation of the inquiry's recommendations.

Source: Adapted from FSRB (2005a, pp. 15–22).

### 3.5.2 ARE COUNCILS SUSTAINABLE? INDEPENDENT INQUIRY INTO THE FINANCIAL SUSTAINABILITY OF NSW LOCAL GOVERNMENT (2006)

The *Independent Inquiry into the Financial Sustainability of NSW Local Government* (LGI; ‘Allan Report’) was undertaken over a six-month period by a three-member group independent of the local government sector. The Inquiry was commissioned by the Local Government and Shires Association of NSW (LGSA). Dollery, Byrnes and Crase (2007c, p. 117) noted that the Inquiry ‘represented a much broader investigation than the South Australian FSRB Inquiry since it roamed far beyond the narrow question of financial sustainability’. The LGSA stated that the Inquiry was undertaken ‘in response to widespread concerns about Local Government’s financial capacity to meet the growing demand for infrastructure and services’ (LGSA, 2008). The ToRs for the Inquiry are listed below:

- To assess the current financial position and performance of the NSW Local Government sector and its individual councils;
- To assess the adequacy of existing NSW Local Government physical infrastructure and service delivery in terms of (i) its statutory obligations, (ii) community, State government, and Commonwealth Government expectations of its role and functions, and (iii) challenges posed by changing demographic, economic, social, environmental, technical and governance trends;
- To assess the financial capacity of Local Government to meet its statutory obligations, expected functions and emerging challenges; and
- To identify possible financial, administrative, governance and intergovernmental reforms that could address and shortcomings and gaps uncovered by the above research.  
(Local Government Inquiry 2006a, p. 35)

Specific Local Government issues addressed as part of this Inquiry included:

- The condition of Local Government infrastructure and other assets, including environmental assets;
- Responsibility and cost shifting from other tiers of government;
- Impact of rate pegging and rate exemptions compared with other jurisdictions;
- Implications of the Sydney Metropolitan and other urban planning strategies;
- The House of Representatives ‘Hawker Committee’ recommendations;
- The accountability, effectiveness and efficiency of Local Government;
- Appropriate fiscal and other performance benchmarks for Local Government;
- Intergovernmental fiscal, legal and administrative arrangements, including a comparison with other states; and
- Regional cooperation and partnerships between individual councils.  
(Local Government Inquiry 2006a, p. 35)

The Inquiry commenced in September 2005 and produced three documents: a ‘Background and Issues Paper’ (October 2005), an ‘Interim Report: Findings and Options’ (March 2006) and the ‘Final Report: Findings and Recommendations’ (May 2006). In relation to sectoral and community engagement, the following activities were undertaken:

- Stakeholder workshops in urban, regional and rural areas (12 in total, 400 participants).
- Surveys of 900 NSW residents and in excess of 250 councillors and council officers.
- Receipt of 160 submissions from councils and other stakeholders.
- Meetings with the Minister for Local Government and interviews with 26 senior representatives from state and national government departments.

Additionally, considerable research, in partnership with councils, focussed on administrative capacity and costs, key result areas, cost shifting, financial situation and asset management practices (Local Government Inquiry 2006a, pp. 39–40).

The key findings of the Inquiry are summarised in the Executive Summary of the Final Report in a ‘gap analysis’ format, which described a preferred state and current status report for local government in NSW in terms of role, infrastructure, services, planning, revenue, governance and finances. The recommendations represent the panel’s suggested actions in bridging the gap between the reality of NSW councils and their desired state. With regards to the financial sustainability assessment of NSW councils, Access Economics prepared a report: *Local Government Finances in New South Wales: An Assessment* as part of the Inquiry. Table 3.14 is from the Access Economics Report, which reported on the financially unsustainable NSW councils.

**Table 3.14 Key Findings – Sustainability Assessment of NSW Councils**

Type of Council	Unsustainable Councils		
	Number	% of Total	% of Type
Metropolitan	7	18%	17%
Regional	13	31%	33%
Country	20	27%	50%
Above-average growth	19	31%	48%
Declining population	4	17%	10%
Largest 25%	6	17%	15%
Smallest 25%	13	35%	33%
<b>All NSW Councils</b>	<b>40</b>	<b>26%</b>	<b>100%</b>

Source: Access Economics (2006, p. 52).

Table 3.14 shows that over one-quarter of NSW councils were considered to be unsustainable by the Inquiry at the time. In response to this issue and the other issues raised through the Inquiry process, Table 3.15 summarises the recommendations developed by the panel.

**Table 3.15 Summary of Recommendations – Are Councils Sustainable? Independent Inquiry into the Financial Sustainability of NSW Local Government**

Summary of Recommendation	Potential Reform					Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	
<p><i>Role of Local Government (5)</i> The purpose of these recommendations is to strengthen the role of local government in the Australian federation through:</p> <ul style="list-style-type: none"> <li>• Recognition in the Australian Constitution.</li> <li>• Intergovernmental agreement between the state government and the LGSA.</li> <li>• Annual cost shifting survey.</li> <li>• Review of administrative requirements imposed on local government by the higher tiers of government.</li> <li>• Increased emphasis on funding the infrastructure renewal gap and backlog and seeking external funding sources to support other additional services.</li> </ul>			✓			Reinforced the recommendations of the Hawker Report (2003) by aiming to address the structural aspects of cost shifting and the lack of clarity in relation to local government's role in the Australian federation.
<p><i>Local Government Infrastructure (4)</i> These recommendations addressed the infrastructure renewal gap and backlog by suggesting:</p> <ul style="list-style-type: none"> <li>• State-based incentives for councils to adopt a total asset management system.</li> <li>• Increased funding from all levels of government and council savings to address the infrastructure crisis.</li> <li>• That councils fully cash-fund depreciation and dedicate these funds to asset renewals.</li> <li>• Responsibility for regional roads in rural shires be transferred to the state government as councils do not have the capacity to manage this infrastructure.</li> </ul>		✓	✓		✓	Provided a multi-faceted approach to potentially alleviating some of the fiscal stress caused by the infrastructure gap and backlog by increasing funding from the higher tiers of government, improving management of infrastructure assets, and the reallocation of responsibility for regional roads in rural shires to the state government.

Summary of Recommendation	Potential Reform						Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
<p><i>Local Government Services (5)</i>            These recommendations were aimed at promoting more effective and efficient delivery of council services through:</p> <ul style="list-style-type: none"> <li>• Community consultation and long-term service planning in response to identified needs.</li> <li>• Collaborative purchasing arrangements facilitated by the LGSA.</li> <li>• Innovative solutions to achieve cost-savings and increased revenue.</li> <li>• Commercialisation of businesses where appropriate.</li> </ul>			✓		✓		Aimed at ensuring that local communities have input into the future direction of council services and provided a mandate for local government to be more innovative and creative in finding cost savings and additional revenue.
<p><i>Development Planning and Control (6)</i>            These recommendations suggested a number of measures to streamline the planning and development control process:</p> <ul style="list-style-type: none"> <li>• The state creates a single planning document.</li> <li>• Councils prepare a long-term land usage plan.</li> <li>• Greater delegation to external expertise to allow faster processing of development applications.</li> <li>• Panels to advise councils on planning matters.</li> <li>• Increased transparency of the decision-making process in relation to development applications through recording councillors voting and establishing an independent State Planning Commission (for major projects under state control).</li> </ul>				✓	✓		Had the potential to provide cost savings through streamlining development processes however these recommendations also suggest a number of accountability measures that would be costly for councils to implement. The emphasis of these recommendations was to assist councils to improve the planning outcomes for local communities.

Summary of Recommendation	Potential Reform						Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
<p><i>Local Government Revenue (11)</i>            These recommendations aimed to address the key issues affecting revenue raising efforts by councils in NSW and include:</p> <ul style="list-style-type: none"> <li>• Removal of rate-pegging system or, if this is not acceptable, making the system fairer and more relevant to real council costs.</li> <li>• Removal of rate exemptions.</li> <li>• The full reimbursement by the state of pensioner concessions or the introduction of rate deferment.</li> <li>• State-developed pricing principles for council services.</li> <li>• Improved accountability in relation to the expenditure of developer contributions.</li> <li>• Methodological changes to FAGs to improve the 'growth' element of federal grant funding to local government, or to better target FAGs to the councils in most need.</li> <li>• Public disclosure of disability calculations by the NSW Local Government Grants Commissions and the total assistance provided by the state government to councils.</li> </ul>			✓	✓			Implementing these recommendations was aimed at increasing the financial autonomy, viability and accountability of councils.
<p><i>Council Governance and Management(7)</i>            These recommendations aimed to improve the overall performance of councils by:</p> <ul style="list-style-type: none"> <li>• Legislating a choice of governance structures (corporate board or parliamentary/executive structure) for larger councils.</li> <li>• Increasing councillor remuneration.</li> <li>• Developing long-term strategic and financial plans in consultation with local communities that would be audited.</li> <li>• Developing sector-wide KPIs that can be linked to council's desired corporate outcomes and conduct performance benchmarking.</li> <li>• Pursuing resource sharing arrangements or outsourcing arrangements.</li> </ul>				✓	✓		Could potentially increase the capacity of councils by attracting more highly qualified and committed councillors. This could improve the quality of both financial and non-financial decision making as would the various corporate management strategies also suggested in these recommendations.

Summary of Recommendation	Potential Reform					Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other
<p><i>Local Government Finances (10)</i></p> <p>This recommendations suggested strategies to improve the financial performance of councils by:</p> <ul style="list-style-type: none"> <li>• Adopting an expanded comprehensive list of financial KPIs.</li> <li>• Increasing borrowings to fund infrastructure projects.</li> <li>• Reinforcing councillors' responsibilities in matters of financial management and providing the necessary training to elected officials.</li> <li>• Externally assessing the long-term financial position of councils.</li> <li>• The LGSA and state government providing the necessary advice, information, resources and financial incentives to achieve these financial and other reforms.</li> <li>• Councils achieving a surplus on operating budgets within 3 to 5 years.</li> <li>• Including a financial governance statement in council's annual reports. These reports would then be consolidated by the LGSA or a state government agency for categories of councils and the sector as a whole.</li> </ul>			✓		✓	
<p><i>Next Steps (2)</i></p> <p>It was suggested that a local government summit be conducted to implement these recommendations, and that an 'Independent Commission' provide ongoing assessment of the issues affecting the local government sector and oversee the implementation of the recommendations that were endorsed by all relevant stakeholders.</p>						✓

Source: Adapted from Local Government Inquiry (2006a, pp. 298–316).

3.5.3 IN YOUR HANDS: SHAPING THE FUTURE OF LOCAL GOVERNMENT IN  
WESTERN AUSTRALIA, FINAL REPORT (2006)

In 2008, the Western Australian Local Government Association (WALGA) released a plan for the future of local government, *The Journey: Sustainability into the Future*. This plan was based on research and consultation in partnership with the local government sector in Western Australia undertaken over three or four years. This process was overseen by the Systemic Sustainability Study Panel (SSS Panel) and culminated in the panel's Final Report, *In Your Hands: Shaping the Future of Local Government in Western Australia, Final Report* in 2006. Describing the scope of this Inquiry, Dollery, Byrnes and Crase (2007c, p. 125) argued that 'although this document [the SSS Panel's Final Report] deliberately considered the entire gamut of local government activity in Western Australia, it nevertheless devoted significant attention to the question of financial sustainability'. The SSS Panel process was initiated by WALGA as a proactive response to both major political parties making 'statements heralding the future reform of the local government sector' prior to the 2005 state election' (WALGA 2008, p. 4). The ToRs for the Inquiry were to:

Report and provide recommendations to the Association (and State Government) on:

1. Generally, the adequacy of Western Australia's local government system and its operations, its strengths and weaknesses, and means by which it might be improved.
  2. The structural, financial, administrative and other principles upon which Western Australia's system of local government should be based.
  3. Contemporary social communities of interest, environmental catchments and economic clusters to help define the Local Government arrangements (both structural and functional) that would best facilitate sustainable service delivery.
  4. Local Government infrastructure assets, including compilation of a state-wide inventory of all such assets, their gross value, method of depreciation, replacement timing, cost of maintenance and other relevant matters identified by the Study.
  5. The adequacy of existing Local Government funding mechanisms, such as rates, debt, fees and charges, fines and desirability of mechanisms identified from other jurisdictions, such as developer levies, product sales, business activities or other mechanisms or trends identified by the Study.
  6. The economic capacity of the existing Local Government structure to fund the services and infrastructure obligations it currently has and to recommend how any deficit might be addressed.
  7. Current and expected future labour market issues impacting on the sector and what strategies might be adopted to address these issues.
  8. Recent and expected future demographic trends and their likely impact on the Local Government sector and associated strategies to deal with them.
  9. Any proposals, initiatives or directions which might significantly improve the operations of Western's system of Local Government.
- (WALGA 2006, p. 82)



The SSS Panel process in Western Australia formally commenced in late 2005 with the appointment of the SSS Panel to ‘research and investigate the sustainability of local government in Western Australia’ (WALGA 2008, p. 4). The SSS Panel process consisted of three stages, with stage one incorporating various research activities, consultancies and industry submissions that informed the development of an ‘Interim Report’. Stage two consisted of sector engagement to seek comment and discussion on the ‘Interim Report’ and stage three was the presentation of 41 recommendations in the ‘Final Report’. Opportunities were provided for councils and interested stakeholders to make submissions to the SSS Panel. A total of 28 submissions were received (WALGA 2006, p. 7).

A process for implementing these recommendations was then developed by WALGA, which involved the establishment of a taskforce, further sector engagement and the establishment of working parties based on the themes in the ‘Final Report’, namely leadership for change, finance, revenue, services and capability. The outcome of the Working Group deliberations was the document *The Journey: Sustainability into the Future* (WALGA 2008, p. 4).

The key findings in terms of the financial sustainability assessment of councils in Western Australian are summarised in Table 3.16.

**Table 3.16 Key Findings – Sustainability Assessment of Western Australian Councils**

Type of Council	Unsustainable Councils			
	Number	% of Total	% of Type	% of State Pop’n
Metropolitan	3	4%	10%	5%
Regional, with large towns	19	23%	70%	11%
Regional, without large towns	61	73%	71%	5%
Above-average growth	13	16%	45%	8%
Declining population	53	64%	75%	9%
Largest 25%	11	13%	31%	12%
Smallest 25%	24	29%	69%	1%
<b>All WA Councils</b>	<b>83</b>	<b>100%</b>	<b>58%</b>	<b>21%</b>

Source: WALGA (2006, p. 33).

Table 3.16 shows that 58% of Western Australian councils were considered to be unsustainable at the time of the Inquiry. In response to this issue and the other issues

raised through the Inquiry process, Table 3.17 summarises the recommendations developed by the SSS Panel.

**Table 3.17 Summary of Recommendations – In Your Hands: Shaping the Future of Local Government in Western Australia, Final Report**

Summary of Recommendation	Potential Reform					Potential Effects on Local Government	
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
<i>Leadership in the Change Process (6)</i> These recommendations defined a role for WALGA in facilitating the implementation of the final report recommendations and other reform processes through: <ul style="list-style-type: none"><li>• Additional stakeholder engagement.</li><li>• Local government summit.</li><li>• Preparation of a 10-year industry plan for sector reform.</li><li>• Establishment of a taskforce.</li></ul>						✓	Provided a structured approach for the implementation of the final report recommendations. The leadership role identified for WALGA and the ongoing involvement of councils is likely to be a key success factor in this implementation process.
<i>Strengthening financial and planning disciplines (16)</i> These recommendations aimed to improve the standard of council’s financial management and service planning activities by: <ul style="list-style-type: none"><li>• Promoting greater collaboration between all levels of government in the development of policy and legislation in relation to local government revenue-raising.</li><li>• Improving the financial management capacity of councils in areas such as debt funding and capital management.</li><li>• Integrating council’s assessment of community needs with financial and asset management plans over the long-term.</li><li>• Developing a best-practice approach to rating and financial reporting to maximise own source revenue to ensure transparency and accountability.</li><li>• Developing an integrated approach to asset management over the short and long term using asset management plans and formulating standards for infrastructure service levels that are informed by community input and feedback.</li></ul>			✓		✓		Aimed at encouraging councils to develop a holistic approach to financial management with a particular focus on the strategic relationships between identifying community needs, setting service levels and implementing a best practice approach to funding and managing council infrastructure.

Summary of Recommendation	Potential Reform						Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
<p><i>Securing better revenue options (13)</i>            These recommendations aimed to increase the revenue available to councils through:</p> <ul style="list-style-type: none"> <li>• Improving the escalation methodology for FAGs so that funding amounts are more responsive to changes in local government costs.</li> <li>• Setting rates consistent with real costs and allowing flexibility for local government in developing rating and other own source revenue policies.</li> <li>• Ensuring opportunities for councils to benefit from the state's natural resources where appropriate through the rating system.</li> <li>• Increasing the use of developer charges for community infrastructure where appropriate.</li> <li>• Improving funding arrangements and management of roads and other infrastructure to address the backlog.</li> <li>• Compensating councils for lost revenue to state legislated or policy based rates concessions.</li> <li>• Responding strategically to the unique costs associated with high growth areas.</li> <li>• Providing state-based financial incentives for integrated service delivery between councils and to implement long-term sector change.</li> </ul>	✓		✓				<p>Provided tangible strategies to increase council's revenue base focusing on increased funding from other levels of government and lobbying for greater autonomy in generating own source revenue.</p> <p>The inclusion of the integrated service delivery concept introduced the possibility of structural reform in response to financial sustainability issues.</p>

Summary of Recommendation	Potential Reform						Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
<p><i>Strengthening service delivery (5)</i> These recommendations aimed to improve the efficiency and effectiveness in delivery council services by:</p> <ul style="list-style-type: none"> <li>• Developing a strategic approach to representing community needs and aspirations through innovative service delivery models that may extend beyond council boundaries.</li> <li>• Providing support and incentives for councils that decide to progress with a collaborative approach to service delivery or amalgamation to ensure a successful transition into the new arrangements.</li> <li>• Improving reporting to accurately reflect the costs, beneficiaries and relevant externalities associated with the provision of local government services and the inclusion of a pricing mechanism that reflects these variables.</li> <li>• Making various procedural changes to local government service delivery as required in relevant legislation or other regulatory/policy areas.</li> </ul>	✓		✓				<p>Designed to encourage councils to consider resource-sharing options in order to improve service delivery standards. Voluntary amalgamation was also identified as a reform option. Ongoing commitment from participating councils and support from the state government would be critical in ensuring the sustainability of these initiatives.</p> <p>Emphasised the need for councils to more accurately determine and report on the costs and benefits of local government services.</p>
<p><i>Investing in talent (1)</i> Recommended that WALGA lead the development of an industry skills strategy as part of the industry plan that will provide a future strategy for the local government, increase the skills and capacity of existing councillors and council officers, and ensure that the local government sector is competitive in the workforce market in order to attract and retain highly skilled and qualified staff.</p>					✓		<p>Had the potential to provide councils with much needed support in building the skills and capacity of the local government sector workforce. The strategy would require adequate funding and support.</p>

Source: Adapted from WALGA (2006, pp. 76-79).

#### 3.5.4 A REVIEW OF THE FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT IN TASMANIA (2007)

The origin of this Inquiry was a resolution at the 2006 Local Government Association of Tasmania (LGAT) Annual Conference to ‘investigate an independent review – identifying deficiencies and problems within the sector – plant and equipment resources, asset management and financial capacity’ (LGAT 2006, p. 9). In March 2007, the President of LGAT at the time, Mayor Mike Gaffney, released the Inquiry’s Final Report, *A Review of the Financial Sustainability of Local Government in Tasmania*, prepared by Access Economics.

This investigation into local government sustainability in Tasmania was a sector-based initiative (as opposed to a public inquiry) with the opportunity for public comment and submissions. The Final Report was the technical document prepared by Access Economics, which focussed on the performance of Tasmanian councils in relation to the accounting ratios and associated benchmarks that constituted the Access Economics (2007) approach to measuring financial sustainability of local government. LGAT requested that Access Economics ‘address the following seven issues’:

- The present condition of Council finances (their financial position, their financial performance and their infrastructure-related financial obligations), measured in terms of appropriate key financial indicators and assessed relative to applicable benchmark values;
  - The outlook for Council finances over the next 10 years under present and alternative infrastructure and service provisioning scenarios;
  - The financial capacity of Councils to fund their service and infrastructure obligations, and the additional own-source financial capacity available under alternative revenue raising options;
  - The present standard of Council financial governance policies and processes relative to good practice;
  - The financial sustainability of individual Councils;
  - The adjustments that may be necessary to current policy directions, including how any deficits – current or emerging – might be addressed; and
  - Possible improvements to financial governance.
- (Access Economics 2007, p. i)

In undertaking this project, Access Economics sourced relevant data from councils and the Tasmanian Local Government Office. Whilst there was no formal sector engagement process documented, it is likely that councils would have had the opportunity to discuss issues with Access Economics representatives during the Inquiry. The Final Report consisted of 26 recommendations and soon after its release LGAT formed a Steering Committee to ‘work through the recommendations and develop a

program of action to implement those that are supported' (LGAT 2007, p. 2). The key findings from the sustainability assessment of Tasmanian councils are summarised in Table 3.18.

**Table 3.18 Key Findings – Sustainability Assessment of Tasmanian Councils**

<b>Sustainability Criteria</b>	<b>Number of Councils</b>	<b>Percentage</b>
Unsustainable	6	20.0%
Vulnerable	5	17.0%
Financially sustainable with a minimum margin of comfort	8	28.0%
Financially sustainable with a moderate margin of comfort	6	21.0%
Financially sustainable with a significant margin of comfort	4	14.0%
<b>Total</b>	<b>29</b>	<b>100.0%</b>

*Source:* Access Economics (2007, pp. 28–29).

Table 3.18 shows that approximately 37% of Tasmanian councils were considered to be either unsustainable or vulnerable at the time of the Inquiry. In response to this issue and the other issues raised through the Inquiry process, Table 3.19 summarises the Access Economics recommendations in the report.

**Table 3.19 Summary of Recommendations – A Review of the Financial Sustainability of Local Government in Tasmania**

Summary of Recommendation	Potential Reform						Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
<p><i>Financial Governance (10)</i>            These recommendations aimed to improve financial governance arrangements through:</p> <ul style="list-style-type: none"> <li>Establishing audit committees for each council made up of external members (rural councils may establish joint committees). LGAT would assist councils by providing a framework and information on how to establish and administer an audit committee. The purpose of these committees would be to review council's approach to financial governance including planning and monitoring processes.</li> <li>Developing annual budgets and forward estimates that form part of a long-term financial plan (10 years).</li> <li>LGAT developing policy and guidelines to assist councils in delivering balanced budgets and evaluating the effectiveness of service delivery and infrastructure programs.</li> <li>LGAT developing a standard accounting code for the sector and a uniform approach to developing the long-term financial plans.</li> <li>LGAT facilitating in partnership with the state government a best practice financial reporting framework on-line for use across Tasmania.</li> </ul>			✓		✓		Encouraged councils to develop a long-term perspective of financial issues and to consider expenditure within the context of what is financially sustainable. Argued that the success of long-term financial plans is largely dependent on a council's commitment to the plan.
<p><i>Revenue and Financing Policies (7)</i>            These recommendations aimed to improve revenue and financing policies through:</p> <ul style="list-style-type: none"> <li>Councils developing a 'revenue and financing policy statement' to ensure councils' approach to funding service delivery and infrastructure programs is economically viable.</li> <li>Maximising own-source revenue through appropriate rating practices that are linked to councils' long-term financial plans.</li> <li>Developing an 'output-based' reporting framework for council services. This will assist councils in pricing through accurately identifying the costs and benefits associated with delivering a service.</li> <li>Greater use of developer charges where possible to fund community infrastructure.</li> <li>Improving the capacity of councils to understand contemporary financial management practices in areas such as capital management and debt funding of infrastructure.</li> </ul>			✓		✓		Had the potential to assist councils in leveraging additional own-source revenue. Required councils to have relevant knowledge and expertise to implement these improvements to revenue and financial policies.



Summary of Recommendation	Potential Reform						Potential Effects on Local Government
	Structural	Functional	Financial	Jurisdictional	Organisational & Managerial	Other	
<p><i>Asset Management (7)</i> These recommendations aimed to improve asset management practices through:</p> <ul style="list-style-type: none"> <li>• LGAT facilitating the development of an accounting policy code that standardises the following across the sector: asset classification and registers, approaches to asset valuation and depreciation, and definitions for maintenance, renewal and upgrading/expansion of assets.</li> <li>• Developing a consistent approach to councils' external reporting of the infrastructure backlog and asset renewals gap.</li> <li>• LGAT improving their programs and initiatives that assist councils in developing asset management plans in collaboration with the state government and relevant stakeholders.</li> <li>• Each council developing an asset management plan (10 years) that is integrated with the long-term financial plan.</li> <li>• Updating councils' baseline information on the condition of their assets including estimates of the infrastructure backlog and asset renewal gap.</li> <li>• LGAT providing guidance to councils on how to consult with local communities in relation to asset management issues, associated service levels implications and funding requirements.</li> <li>• LGAT advocating on behalf of the local government sector to access additional funds to address the infrastructure backlog issue.</li> </ul>			✓		✓		<p>Provided councils with information on the key elements of an integrated and comprehensive response to asset management. The support from LGAT and the state government was critical to the successful implementation of these initiatives.</p>
<p><i>Services Policies (2)</i> These recommendations aimed to improve service delivery outcomes through:</p> <ul style="list-style-type: none"> <li>• Each council publishing a 'services policy' that clearly articulates the 'roles and functions that are prepared to adopt'.</li> <li>• LGAT investigating the viability of resource sharing between councils in Tasmania. This could include facilitating discussions between councils in relation to the implementation of this concept where appropriate.</li> </ul>	✓	✓			✓		<p>Had the potential to assist councils in managing community expectations in relation to service levels. Resource sharing in some instances may create efficiencies and/or service level improvements.</p>

Source: Adapted from Access Economics (2007, pp. 55-66).

### 3.5.5 LOCAL GOVERNMENT AND PLANNING MINISTERS' COUNCIL (LGPMC)

Three key themes that consistently emerged from these state-based inquiries into local government sustainability were: measuring councils' financial sustainability; asset planning and management; and sound financial planning and reporting. The Local Government and Planning Ministers' Council (LGPMC) established national frameworks in relation to these themes, known as *Local Government Financial Sustainability Nationally Consistent Frameworks*. The LGPMC, which was formed in 2001 from an amalgamation of the Local Government Ministers' Conference and the Planning Ministers' Conference, published *Framework 1 – Criteria for Assessing Financial Sustainability* in May 2007, whilst *Framework 2 – Asset Planning and Management* and *Framework 3 – Financial Planning and Reporting* were published in May 2009. The LGPMC stated that each of these frameworks 'aim to provide a consistent reporting mechanism for all local government authorities and a clearer picture for State and Territory governments of the financial and management "health" of local governments' (LGPMC 2009, p. 1).

Given the strong emphasis on the 'accounting approach' to measuring local government sustainability in the inquiries described above, the list of indicators contained in Framework 1 is of interest. Indicators are described in the framework as 'signals to convey evidence of certain directions being taken by a council and to assess whether or not desired outcomes are being achieved' (LGPMC 2007, p. 2). It is important to note that both financial and non-financial indicators are included in the national framework to address the following local government sustainability factors:

- Income-generating efforts (rates, other own source revenue, operating costs, operating results).
  - Efficiently delivered services that are appropriate to needs (level of community engagement to determine service standards and levels).
  - Short- and long-term financial sustainability (liquidity and debt).
  - Ability to maintain, renew and upgrade assets (asset renewal).
- (LGPMC 2007, pp. 3–4)

Building on this concept of non-financial indicators to measure local government sustainability, it can be argued that local government sustainability depends on more variables than the public finance arguments that were the focus of all the inquiries discussed above. From a theoretical perspective, the local government failure taxonomy

first developed by Dollery and Wallis (2001) and then expanded by Byrnes and Dollery (2002a) encourages a broader perspective on local government sustainability. Byrnes and Dollery (2002a) postulated that local government fails in its attempt to efficiently (or sustainably) provide public goods and services due to five reasons, as described in Table 3.20.

**Table 3.20 Local Government Failure Taxonomy**

<b>Element of Local Government Failure</b>	<b>Description</b>
Voter apathy	Where voters invest little time and effort into determining the best candidates for councillor positions. There is limited knowledge in the community about the credentials and policies of candidates, which ultimately can affect the performance of the council. For example, councillors without a proven track record in financial management may continue to be re-elected because the voters do not take an active interest in the financial performance of councils.
Asymmetric information and councillors capture	Where councillors lack the expertise and knowledge required to make good decisions and become heavily reliant on managers who may attempt to influence the council in ways that could adversely affect the sustainability of the organisation. For example, a manager may provide inappropriate financial advice that has significant implications for the sustainability of the council and the councillors are not able to confidently review and analyse this advice independent of the manager.
Iron triangles	Where decision-making in local government can be influenced by councillors, council officers and interest groups who collectively advance a particular agenda or course of action. This may not be in the broader interests of the council or the wider community. For example, an iron triangle may form in relation to a particular project that has significant financial implications, yet it benefits only a small group in the community, when these funds could be used for other purposes that have wider community benefit, such as infrastructure renewal.
Fiscal illusion	Where local communities do not always accurately understand the costs and benefits associated with council expenditure. An example of this issue is renter illusion where there is an increased proportion of renters in a community who do not pay rates (renter illusion). This can lead to increased expenditure by Councils in an effort to meet community expectations that are formed without due consideration for the real costs to the individual through increases in taxes and/or rates.
Political entrepreneurship	Where councillors use local government as a platform for their political career. These personal interests may affect the quality of decision-making. For example, a councillor may successfully lobby for a key project that would improve his/her profile. However, the council may not be able to afford the project at that time or should be allocating ratepayers' money to a more worthy project.

*Source:* Adapted from Byrnes and Dollery (2002a).

Dollery, Byrnes and Crase (2008, p. 57) subsequently suggested that an even broader view of local government sustainability is required than that described in Table 3.20, by stating that this 'typology is open to the criticism that it considers only "internal" factors

to the exclusion of the external environment'. As a result they developed the framework for local government sustainability described in Chapter 2.

### 3.6 ANALYSIS OF CONTEMPORARY LOCAL GOVERNMENT REFORM

The local government sustainability framework developed by Dollery, Byrnes and Crase (2008) aims to conceptualise a number of 'internal and external', 'financial and non-financial' determinants of council sustainability. Table 3.21 summarises the components of this framework.

**Table 3.21 Determinants of Council Sustainability**

	Internal	External
Financial	Financial management	Council revenue (income sources) Council expenditure (cost shifting)
Non-financial	Governance	Demographic factors

Table 3.21 shows in theoretical terms the key determinants of council sustainability. By analysing the recommendations of the abovementioned inquiries into local government sustainability using this framework, the emphasis of contemporary public policy in local government reform can be explored and suggestions can be made regarding the focus of future investigations. First, at the national level, the emphasis of the CGC Report (2001) was by nature focussed upon external financial determinants of council sustainability, specifically the funds councils receive through FAGs. The key actions from this review focussed on procedural issues in order to ensure that federal government support was targeted at the councils in most need. Whilst there was no suggestion that the amount provided through FAGs should be increased, given the limitations set by the ToRs, the review highlighted the growing demands on councils in providing 'services to people' and the decline in real terms in funding support from the states. Second, the Hawker Report (2003) recommendations also focussed on external financial determinants,

specifically on the development of various agreements and processes that acknowledge, define and address the various dimensions of the cost shifting issue. This included clarifying and formalising councils' roles in the delivery of federal- and state-funded initiatives and keeping the states more accountable for the level of support they provide to local government. A secondary focus in the Hawker Report (2003) recommendations was on internal financial determinants and building the capacity of councils in the areas of financial and asset management. Third, the PwC Report (2006) provided more tangible and focussed recommendations with the focus on external financial determinants, specifically the need to increase funding levels from the state and federal governments. This may be due in part to the fact that this work was commissioned by ALGA, a peak body representing the interests of the local government sector. There was also recognition of internal financial determinants in the area of financial management as per the Hawker Report (2003). It is interesting to note that in all of the recommendations from the national studies, the only reference to structural reform was in the PwC (2006) Report, referring to opportunities to improve efficiency, effectiveness and scale through shared service provision, outsourcing and state-wide purchasing agreements.

Again, by applying the framework in Table 3.21 at the state level, the focus on both external and internal financial determinants was continued in the South Australian FSRB Report (2005) with a specific focus on defining and measuring financial sustainability. The recommendations in this report emphasised the development of financial sustainability and policy frameworks, building the financial capacity of councils, and the need to have improved relationships between councils. Instances of cost-shifting were also highlighted in terms of councils being required to implement the state's legislation and policy agenda – in areas such as town planning, for example. Second, in NSW, the LGI (2006) similarly emphasised financial determinants; however, the recommendations of the Allan Report (2006) did consider internal non-financial determinants, such as council governance and management, long-term service planning and various jurisdictional issues. In relation to financial determinants, factors constraining own-source revenue, such as rate pegging, were emphasised, as was the need to improve the level of funding from FAGs. Finally, in Western Australia and Tasmania the focus of the recommendations was similar in relation to financial determinants; however, there was an element of structural reform introduced through the

mention of resource-sharing options (in both Western Australia and Tasmania) and voluntary amalgamations (in Western Australia).

In sum, it can be argued that these seven significant investigations into local government financial sustainability considered that the solutions to improving the performance of councils lay in addressing the external and internal financial determinants summarised in Table 3.21. Whilst this may seem to be an unsurprising conclusion, it is striking that, despite these inquiries reporting on a large number of ‘at risk’ or unsustainable councils, very limited reference was made to the need for structural reform, such as amalgamation, as a solution. It can also be argued that external and internal non-financial determinants of local government sustainability have been underestimated in this most recent episode of local government reform. For example, in an analysis of ‘at risk’ councils in NSW, Murray and Dollery (2005, p. 343) stated:

[T]hat governance issues (broadly defined) seem to have been the critical factors in the most recent NSW local government failure episodes. Press reports indicate that failed entrepreneurial projects by councils or councils in partnership with private organisations; factional ‘infighting’ amongst elected councillors and the attendant resignation of frustrated experienced professional staff; a preponderance of ill-informed and unwise elected councillors; poor quality professional staff, especially in rural and remote areas; and a lack of adequate internal controls all seem to have played a critical role in municipal failure.

Perhaps there are some solutions to the local government sustainability issue resting in developing recommendations in response to these issues. Similarly, strategies could also be developed to assist councils in responding to the demographic trends, highlighted in Chapter 2, that directly affect local government sustainability. Murray and Dollery (2005, p. 343) suggested that the CGC consider more diligently the emergence of cost and revenue disabilities for councils resulting from factors such as ‘population dispersion, age/sex distribution of its population, difficult terrain/climate, urban congestion, economies of scale etc. [and] a weak property tax base’ when determining funding levels and identifying the councils in most need of financial assistance.

### 3.7 IMPLEMENTATION AND FURTHER INQUIRIES

#### 3.7.1 IMPLEMENTATION

In a report prepared by Professor Brian Dollery for the Northern Tasmania Regional Development Board Limited, information was provided in relation to the implementation of the abovementioned inquiries into local government. Table 3.22 provides a summary of this material.

**Table 3.22 Local Government Inquiries (2000–2010) Summary of Outcomes**

<b>Inquiry</b>	<b>Summary of Outcomes</b>
Commonwealth Grants Commission (2001)	There was no ‘specific action’ in relation to this report. However it was a ‘landmark in the analysis of the financial sustainability of Australian local government’.
Hawker Report (2003)	‘The 2006 Intergovernmental Agreement by the Commonwealth, state governments and local government’, was the only ‘tangible policy change’ from this report.
PriceWaterhouseCoopers Report (2006)	‘There was no official response to its recommendations’.
South Australian Financial Sustainability Review Board Report (FSRB) (2005)	Whilst there was limited significant action in response to this report, ‘almost all other state jurisdictions held inquiries patterned on the FRSB (2005) model’.
Independent Inquiry into NSW Local Government Report (Allan Report) (2006)	‘No official response followed the Allan Report’.
Western Australian <i>Systematic Sustainability Study</i> (2006)	A voluntary amalgamation program was proposed by the Western Australian Government rather than then implementing the recommendations from this report.
Local Government Association of Tasmania Review (2007)	‘Few recommendations were implemented’.

Source: Adapted from Dollery (2011, pp. 11–14).

Table 3.22 shows that, despite the time, effort and resources that have gone into conducting these inquiries, in general terms there has been limited effort directed towards implementing the recommendations contained in these reports. This view is shared in part by the Australian Centre of Excellence for Local Government (ACELG) (2011). Its publication *A Decade of Inquiries into Australian Local Government*, which is also based on research conducted by Professor Brian Dollery, provides some more detailed information in relation to the implementation of recommendations stemming from the abovementioned inquiries. ACELG (2011) identified a number of policy initiatives that have been implemented. These include increased federal funding for local roads in South Australia (since 2005), initiatives in most states to improve financial management, strategic, asset, financial and workforce planning, and overall council performance. The ‘Inter-Governmental Agreement Establishing Principles

Guiding Inter-Governmental Relations on Local Government Matters’ (cost-shifting) was signed in 2006, and in most states subsequent subsidiary agreements have been signed. Other initiatives implemented have included a review of rate-pegging in NSW by the state’s Independent Pricing and Regulatory Tribunal in 2009 and the implementation of the Local Government Reform Fund in 2009 which provided federal funding ‘to improve asset and financial management, and collection of consistent national data’ (ACELG 2011, p. 38). Despite these policy achievements, ACELG (2011, p. 39) described the implementation of recommendations from these inquiries to be ‘patchy’. It is suggested that state governments have little interest in ‘inquiry recommendations unless they initiate and control the agenda themselves’ whilst ‘local government itself has mostly failed to assemble and prosecute packages of reform that are acceptable to councils generally, and that also appeal to other key stakeholders – especially state governments’ (ACELG 2011, p. 39). ACELG (2011, pp. 40–41) identified the following items of ‘unfinished business’ from the local government inquiries conducted in the decade 2000 to 2010:

- ‘Ongoing concerted efforts to expand local government’s own source revenues;
- A review of the system of federal financial assistance grants;
- Detailed examination of the special needs and problems faced by small (in population) rural-remote councils;
- Full implementation of recent moves towards improved long-term strategic, asset, financial and workforce planning;
- Related measures to improve the quality and consistency of financial governance;
- Expanded and strengthen regional collaboration and resource sharing;
- Further examination of the potential for council amalgamations in specific regions and circumstances;
- A new or revised inter-governmental agreement [on the role and responsibilities of local government] in the broader system of government.’

Notwithstanding the work that is yet to be done to implement recommendations of these inquiries that have already been undertaken, various new local government reform programs have commenced. Some of these are described below.

### 3.7.2 INDEPENDENT REVIEW OF STRUCTURES FOR LOCAL GOVERNANCE AND SERVICE DELIVERY IN SOUTHERN TASMANIA (2011)

In April 2011, a steering committee of the Southern Tasmanian Councils Authority (STCA) engaged a panel of experts ‘to develop options for local government reform in the region’ (STCA 2011, p.6). The STCA is a ‘joint authority’ under Tasmania’s Local



Government Act and comprises 12 councils in southern Tasmania. This project was funded by the Australian Government's Local Government Reform Fund and the panel of experts included Ms June Munro AO (Chair), Mr Saul Eslake and Mr Stephen Hains. Professor Graham Sansom was also engaged as an advisor to the project. The objectives of the project were to:

- Maximise the financial sustainability of the Southern Tasmanian local government sector to support continued provision of services to its communities over the long term by promoting more effective service delivery and increasing collaboration within the sector.
  - Develop viable, sustainable models for future local government reform in Australian jurisdictions.
- (STCA 2011, p. 7)

Activities undertaken by the expert panel included desktop research, community consultation and stakeholder engagement. The expert panel was required to prepare discussion papers, options for structural reform 'including but not limited to, amalgamation and resource sharing', a final report, and a 'national reference resource for local government' to assist other councils in Australia 'facing the same range of issues' (STCA 2011, p. 7).

In October 2011 the expert panel delivered its final report containing 13 recommendations. The key recommendations relating to structural and legislative reform of local government in southern Tasmania were the creation of a 'capital city' council named the City of Greater Hobart and the development of a 'City of Greater Hobart Act' 'that recognises the city as a capital city, identifies the powers of the mayor and council, and the obligations the city has to support rural councils through its resources and contacts' (STCA 2011, pp. 3–4). A number of other recommendations were put forward with respect to a possible timeline and process for this amalgamation to occur. Financial management and sustainability was also a focus, with the expert panel recommending 'that a review of the financial management policies of Southern Tasmanian councils be undertaken with a view to appropriate financial management principles and practices being adopted' (STCA 2011, p. 32).

3.7.3 DELOITTE ACCESS ECONOMICS REPORT ON LOCAL GOVERNMENT  
STRUCTURAL REFORM IN TASMANIA (2011)

Deloitte Access Economics was engaged by the Property Council of Australia (Tasmanian Division) ‘to examine the case for, and potential benefits from, further local government reform (Deloitte Access Economics 2011, p.1). In 2011 the final report of this study was published, which included the following key findings:

- Structural reform of councils in Tasmania could allow for efficiency gains of up to 35% if appropriately conceived and effectively managed. Past experience in Tasmania and elsewhere in Australia suggests gains of at least 10 and 20%.
- Benefits will be achieved through economies of scale, a broadened scope of operations and improved specialisation, creating potential for enhanced financial sustainability, more efficient governance and greater competency within councils.
- Community benefits will be achieved through a greater capacity to deliver improved and potentially increased service levels to a broader section of the community, while either reducing or slowing the rate of increase of council rates.  
(Deloitte Access Economics 2011, p. i)

The approach taken by Deloitte Access Economics included desktop research of existing literature and data publicly available relating to local government. This information informed the development of a ‘stylised case study of potential efficiency gains that may be achieved through the formation of a “Southern” council as well as canvassing potential wider social and economic benefits’ (Deloitte Access Economics 2011, p. 1). This hypothetical amalgamation would see all of the councils that form part of the STCA merge into one council with a population of 250,000 residents. Deloitte Access Economics claimed that their econometric analysis showed that this amalgamation would ‘yield an efficiency gain of up to 35% - or, based on current figures, a saving of up to \$110 million’ (Deloitte Access Economics 2011, p. 29). However, it is important to note that this finding has been questioned by Drew, Kortt and Dollery (2013, p. 60), who stated that ‘while the econometric analysis conducted by the DAE [Deloitte Access Economics] is technically correct, the results are not robust to alternative econometric specifications’. As a result of this deficiency in the methodology unpinning the Deloitte Access Economics report, Drew et al. (2013, p. 63) concluded that the Deloitte Access Economics report ‘is flawed in several respects’ and ‘can hardly be used to justify council mergers which would cost tens of millions of dollars, deeply divide local communities and be almost impossible to reverse’. Notwithstanding this criticism of the economic argument for amalgamation in this

report, Deloitte Access Economics then went on to cite a number of other ‘broader economic and social impacts’ of amalgamation including:

- ‘Improvement in council capacity and capability leading to increased effectiveness in operation’ (Deloitte Access Economics 2011, p. 31);
- Horizontal ‘equity and consistency’ in local government service delivery (Deloitte Access Economics 2011, p. 33);
- Improved ‘fiscal sustainability’ through increased capacity of larger councils in terms of financial governance and expertise (Deloitte Access Economics 2011, pp. 32–33); and
- Improved ‘strategic coordination’ of activities such as economic development and tourism to allow for a more coordinated and consistent approach across a region (Deloitte Access Economics 2011, p. 33).

These broader economic and social impacts are examples of the ‘increased strategic capacity argument’ in favour of amalgamation which is considered in detail in subsequent chapters of this thesis.

#### 3.7.4 METROPOLITAN LOCAL GOVERNMENT REVIEW IN WESTERN AUSTRALIA (2011)

In June 2011 the Minister for Local Government in WA announced ‘a review of Perth metropolitan local government and broader governance structures’ through the establishment of a Metropolitan Local Government Review Panel (MLGRP) (MLGRP 2012, p. 16). The panel members included Emeritus Professor Alan Robson AM CitWA (Chair), Dr Peter Tannock and Dr Sue van Leeuwen. This panel was also supported by two advisory groups, one consisting of the State Government Directors General for the Department of Local Government and the Department of Planning, and the other of representatives of the WALGA. The panel’s final report was presented to the Western Australian Government in July 2012. The terms of reference for the panel were to:

1. Identify current and anticipated specific regional, social, environmental and economic issues affecting, or likely to affect, the growth of metropolitan Perth in the next 50 years.
2. Identify current and anticipated national and international factors likely to impact in the next 50 years.
3. Research improved local government structures, and governance models and structures for the Perth metropolitan area, drawing on national and international experience and examining key

issues relating to community representation, engagement, accountability and State imperatives among other things the Panel may identify during the course of the review.

4. Identify new local government boundaries and a resultant reduction in the overall number of local governments to better meet the needs of the community.
5. Prepare options to establish the most effective local government structures and governance models that take into account matters identified through the review including, but not limited to, community engagement, patterns of demographic change, regional and State growth and international factors which are likely to impact.
6. Present a limited list of achievable options together with a recommendation on the preferred option.

(MLGRP 2012, p. 17)

Metropolitan Perth was defined to include 30 local governments ‘from Yanchep and Two Rocks in the north to Singleton in the south, and from Bullsbrook in the north-east to Serpentine in the south-east’ (MLGRP 2012, p. 17). The panel’s activities included desktop research, community consultation and stakeholder engagement activities. The panel was ‘unanimous in its finding that 30 local governments are too many for the Perth region’ (MLGRP 2012, p. 17). Ultimately, the panel recommended a reduction of councils in the metropolitan Perth area from 30 to 12 ‘based on activity centres identified in the Western Australian Planning Commission’s *Directions 2031 and Beyond*’ (MLGRP 2012, p. 11). This document ‘is a high level spatial framework and strategic plan that establishes a vision for future growth of the metropolitan Perth and Peel region’ (Government of Western Australia Department of Planning and Western Australian Planning Commission 2010, p.1). There were 30 recommendations in the MLGRP final report that covered a range of issues beyond council amalgamations. Topics addressed included finance and governance issues relating to local government, local government – state government relations, the establishment of a Forum of Mayors for metropolitan Perth and compulsory voting at local government elections (MLGRP 2012, pp. 13–15).

#### 3.7.5 INDEPENDENT LOCAL GOVERNMENT REVIEW IN NSW (2013)

Currently in NSW an ‘Independent Review’ is underway to look ‘at ways to strengthen the effectiveness of local government in NSW’ (NSW Government 2013). This review is being undertaken by a panel including Professor Graham Sansom (Chairman), Ms Jude Munro AO and Mr Glenn Inglis. The review panel was appointed by the NSW Minister for Local Government in March 2012 at the request of the Local Government and Shires Association. The ToRs for the panel are to:

... investigate and identify options for governance models, structural arrangements and boundary changes for local government in NSW, taking into consideration:

1. ability to support the current and future needs of local communities;
  2. ability to deliver services and infrastructure efficiently effectively and in a timely manner the financial sustainability of each local government area;
  3. ability for local representation and decision making; and
  4. barriers and incentives to encourage voluntary boundary changes.
- (NSW Government 2013)

This review panel is the first initiative from the ‘Destination 2036’ Action Plan (NSW Government, updated September 2012). ‘Destination 2036’ represents a collaborative effort between NSW councils and the state government to develop a vision, strategic directions, initiatives and actions for the local government sector in NSW (NSW Government 2012). The independent review process has four stages as summarised below:

- Stage 1 Setting the scene identifying key community issues.
- Stage 2 Developing concepts, identifying options and possible applications (‘Case for Change’ paper).
- Stage 3 Proposed changes and models (‘Future Directions’ paper).
- Stage 4 Final report. (NSW Government 2013)

The independent review is currently at Stage 3 of the abovementioned process and the ‘Future Directions’ paper has been released. Of the recommendations in this paper, seven relate to structural reform, four relate to sustainability and finance, and four relate to infrastructure. The remaining recommendations cover topics that include productivity and improvement, better governance and implementation of the recommendations. In relation to amalgamation, the review panel included the following:

- The creation of ‘County Councils’ ‘to undertake regional functions outside the Sydney metropolitan area.
- Introduction of local boards.
- Promotion of voluntary amalgamations in certain areas including smaller rural councils.
- Conversion of small councils (less than 5,000 people) to Local Boards.
- Reduction of the number of councils ‘in the Sydney basin to around 15, and creat[ion of] major new cities of Sydney, Parramatta and Liverpool’.
- Use of incentives to promote voluntary amalgamation.

(Independent Local Government Review Panel 2013, p. 5)

The next step in the independent review process is to undertake further community consultation and stakeholder engagement activities prior to the development of a final report in September 2013.

### **3.8 CONCLUDING REMARKS**

This chapter has sought to provide a comprehensive account and critical evaluation of contemporary local government reform programs in Australia. Included in this discussion was a summary of reform activities that occurred during the 1990s, with a particular focus on the structural reform that occurred during this decade. In addition, the public policy emphasis on external and internal financial determinants of local government financial sustainability was demonstrated through reviewing the recommendations of seven reports based on Inquiries into the performance of local government in the early 2000s. It was noted that all of these reports were conducted at the expense of considering non-financial determinants such as governance issues and demographic factors. This chapter also considered the implementation of recommendations from these reports and subsequent Inquiries that have subsequently occurred in Tasmania, Western Australia and New South Wales. From this discussion, it can be argued that local government reform policy in the 1990s targeted the structural and legislative dimensions of local government, whilst financial reform became the focus in the early 2000s. The next episode in this evolution of local government reform in Australia is described in chapters 5, 6 and 7 of this thesis, namely the Queensland reform experience through the SSS initiative and the Queensland LGRC. Prior to this discussion, Chapter 4 considers the various theoretical perspectives and empirical evidence relating to structural reform of local government.

## **4. CONCEPTUAL AND EMPIRICAL PERSPECTIVES ON LOCAL GOVERNMENT STRUCTURAL REFORM**

### **4.1 INTRODUCTION**

Chapters 2 and 3 outlined the intergovernmental and policy context of Australian local government reform at both the federal and state levels. Chapter 2 described various levels of ‘powerlessness’ that local government experiences within the Australian federation and argued that this lack of autonomy makes local government vulnerable to *ad hoc* reform processes. Chapter 3 demonstrated that in the 1990s local government reform policy largely targeted the structural and legislative dimensions of local government, whilst in the early 2000s financial reform became the main focus.

Both federal and state governments have been very active in local government reform since the 1990s, and this chapter investigates the merits of this reform from both theoretical and empirical perspectives through the prism of the academic literature. This investigation then continues in chapters 5, 6 and 7 using a case study approach to critically evaluate the SSS initiative, the LGRC in Queensland and the forced amalgamation program.

Given the focus of this thesis, in particular the case study to follow, the scope of this literature review will be limited to theoretical perspectives and empirical evidence relating to structural reform of local government. This chapter contains six sections. Section 4.2 defines structural reform in local government and the term ‘economic efficiency’. Section 4.3 describes the theoretical context of this reform using various economic theories of fiscal federation. Section 4.4 considers the relationship between the size of local government and local government efficiency. Section 4.5 considers the relationship between the size of local government and local government effectiveness. The chapter ends with some brief concluding remarks in section 4.6.

## 4.2 DEFINITIONS

### 4.2.1 STRUCTURAL REFORM IN LOCAL GOVERNMENT

As discussed in Chapter 3, the nature and scope of local government reform in Australia can be defined using the analytical framework proposed by Dollery, Garcea and LeSage Jr (2008, pp. 6–7). As part of this framework, they described five types of local government reform, as summarised in Table 4.1.

**Table 4.1      Typology of Local Government Reform**

Type of Local Government Reform	Description
Structural reforms	Changes to the boundaries and the number or types of municipal governments or municipal authorities.
Functional reforms	Changes in the number or types of functions performed by municipal governments through various means, including the realignment of functions between municipal government and other orders of government or other types of local governments.
Financial reforms	Changes to the financial or budgetary frameworks of municipal government ... [including] changes to revenue sources ... expenditures ... and the general management of their financial resources.
Jurisdictional reforms	Changes to the powers (that is, authority and autonomy) bestowed upon municipal governments either in a constitution or in a statute.
Organisational and managerial reforms	Changes to the legislative, executive, management, and administrative structures and processes of municipal governments.

*Source:* Dollery, Garcea and LeSage Jr (2008, pp. 6–7).

Whilst the focus of this chapter is on structural reform as defined in Table 4.1, it is important to note that ‘although a distinction is made between these five categories of reform for analytical purposes, in practice there is some overlap between them’ (Dollery, Garcea and LeSage Jr (2008, p. 7). A salient example of this is described in Chapter 6 where, in Queensland during 2009/10, the local government sector was simultaneously establishing newly amalgamated councils based on recommendations of the LGRC and implementing new policies and practices based on the new *Local Government Act 2009*. Various other definitions of structural reform have also been proposed. For example, as part of its SSS initiative the LGAQ described four types of structural reform, as summarised in Table 4.2.



**Table 4.2      Types of Structural Reform in Local Government (LGAQ)**

<b>Structural Reform Options</b>	<b>Description</b>
Resource sharing through service agreements	A group of councils determine to ‘allocate functions’ to each of the member councils. Under this arrangement, each council would deliver a function/s for the group of councils. Such an approach could also be described as ‘outsourcing service provision to another Council’.
Resource sharing through joint enterprise	A group of councils create of a ‘joint business unit to achieve economies of scale’ in the delivery of a council service.
Merger/amalgamation	‘Where Councils join together voluntarily’.
Significant Boundary Change	‘Which may also include joint arrangements’.

*Source:* Adapted from LGAQ (2005, p. 15).

In presenting these types of structural reform, the LGAQ included a list of advantages and disadvantages for each option, in terms of ‘finance and resources’, ‘organisation and services’ and ‘community and representation’. The key advantages and disadvantages for each option are summarised in tables 4.3 and 4.4, respectively.

**Table 4.3      Advantages of Structural Reform Types (LGAQ 2005)**

<b>Structural Reform Options</b>	<b>Finance and Resources</b>	<b>Organisation and Services</b>	<b>Community and Representation</b>
Resource sharing through service agreements	<ul style="list-style-type: none"> <li>• Economies of scale</li> <li>• Economies of scope</li> </ul>	<ul style="list-style-type: none"> <li>• Operational cost savings</li> <li>• Reduced duplication</li> <li>• More efficient use of resources</li> </ul>	<ul style="list-style-type: none"> <li>• Does not affect representation</li> </ul>
Resource sharing through joint enterprise	<ul style="list-style-type: none"> <li>• Economies of scale</li> <li>• Economies of scope</li> </ul>	<ul style="list-style-type: none"> <li>• Operational cost savings</li> <li>• Reduced duplication</li> <li>• More efficient use of resources</li> </ul>	<ul style="list-style-type: none"> <li>• Does not affect representation</li> </ul>
Merger/amalgamation	<ul style="list-style-type: none"> <li>• Increased resource base</li> <li>• Increased ‘in-house’ financial capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Operational cost savings</li> <li>• Numbers of staff can be reduced</li> </ul>	<ul style="list-style-type: none"> <li>• A council representing a large population has a greater capacity to advocate on behalf of its residents to higher levels of government</li> </ul>
Significant Boundary Change	<ul style="list-style-type: none"> <li>• Increased resource base for the recipient council</li> </ul>	<ul style="list-style-type: none"> <li>• More efficient use of resources, specifically plant and equipment, workshops and depots.</li> </ul>	<ul style="list-style-type: none"> <li>• Does not affect representation</li> </ul>

*Source:* Adapted from LGAQ (2006, pp. 4–10).

**Table 4.4 Disadvantages of Structural Reform Types (LGAQ 2005)**

<b>Structural Reform Options</b>	<b>Finance and Resources</b>	<b>Organisation and Services</b>	<b>Community and Representation</b>
Resource sharing through service agreements	Economies of scale and scope are limited to those services where a service agreement between councils is feasible.	A service agreement including service levels needs to be negotiated between participating councils.	Reduced control over the service/s being delivered by another council.
Resource sharing through joint enterprise	A new entity and management structure is required.	Compliance, administration, and reporting costs associated with a new entity.	Reduced control over the services/s being delivered by the new entity.
Merger/amalgamation	Highlights equity issues in relation to rating policies across the new amalgamated council area.	High costs associated with consolidating the operations of the former councils into one organisation.	Increases the ratio of electors to councillors however this may not adversely affect the quality of representation.
Significant Boundary Change	May affect the ongoing viability of the council losing the area being transferred.	Requires the integration of staff from one organisational into another.	Elected representatives of the area being transferred may be concerned about losing control.

*Source:* Adapted from LGAQ (2006, pp. 4–10).

Dollery and Robotti (2008, p. 5) employed this taxonomy of institutional models in local government structural reform developed by the LGAQ to identify a continuum of structural reform. At one end of the continuum we find ‘merger/amalgamation’. This represents ‘the most intrusive type of structural reform because this form of structural change fundamentally alters the character of the local councils involved’. At the other end they placed ‘resource sharing through service agreements’ and ‘resource sharing through joint enterprise’, because these are ‘less decisive forms of structural reform, since pre-existing local councils retain their democratic autonomy and essentially the same service responsibilities’. They also contended that ‘significant boundary change’ ‘also leaves untouched the key democratic and functional elements of local government and thus is less destructive of existing institutional structures’.

Aulich et al. (2011a, p. 3) also provided a further set of definitions for structural reform. Using the term ‘consolidation’ in their taxonomy of institutional models in local government structural reform, they described the following types of ‘consolidation’ in local government reform: ‘shared service delivery, various models of regional collaboration, boundary adjustment, and voluntary, forced and failed amalgamations of

councils’. Using ‘four broad strands’ (or claims/rationale) in the debate about reform, as summarised in Table 4.5, they ascribed ‘attributes’ to each type of consolidation, as summarised in Table 4.6.

**Table 4.5 Broad Strands in Local Government Structural Reform (Aulich et al. 2011a)**

<b>‘Strand’ in the Reform Debate</b>	<b>Description</b>
Efficiency and economies of scale	Consolidation achieves ‘greater efficiencies and cost savings’ so that services can be delivered at a reduced cost.
Strategic capacity	Consolidation creates local governments with greater ‘strategic capacity to play an expanded and more prominent role’.
Service delivery (Service improvement and innovation)	Consolidation improves the quality of local government services.
Potential diminution of local democracy	Consolidation adversely affects ‘the quality of local representation’.

*Source:* Adapted from Aulich et al. (2011a, pp. 4–5).

The ‘broad strands’ summarised in Table 4.5 represent the key arguments used both in support of, and in opposition to, structural reform in local government. This chapter considers the merits of these arguments from theoretical and empirical perspectives.

**Table 4.6 Attributes of Structural Reform Options (Aulich et al. 2011a)**

<b>‘Strand’ in the Reform Debate</b>	<b>Amalgamation</b>	<b>Boundary Charge</b>	<b>Shared Services</b>	<b>Regional Collaboration</b>
Efficiency and economies of scale	Strong link	Potentially strong link subject to size/disposition of re-shaped councils.	Strong link	Weak link
Strategic capacity	Strong link	As above – benefits will flow to larger ‘new’ council/s.	Potential medium-strong link subject to organisation structure and governance.	Weak link
Service improvement and innovation	Strong link	As above	Strong link (but limited to those services that are effectively shared).	Potential link subject to nature and scope of collaboration.
Potential diminution of local democracy	Distinct risk, but can be managed.	Some risk depending on nature of ‘new’ councils – can be managed.	[This] [r]isk [occurs in situations] where shared services are extensive and decision-making is ceded to joint authority – may be difficult to manage.	Link or no risk.

*Source:* Aulich et al. (2011a, p. 7).

Whilst Table 4.6 provides a useful matrix for understanding the main types of local government structural reform and the key arguments surrounding each type structural reform, it is important to note that, as this chapter demonstrates, the theoretical and empirical evidence in support of economies of scale through amalgamation is at best mixed.

#### 4.2.2 ECONOMIC EFFICIENCY

As this chapter is predominantly concerned with economic efficiency and its relationship to structural reform in local government, it is important to define what is meant by the term ‘efficiency’. Table 4.7 adapted from Dollery and Wallis (2001, p. 5) summarises the ‘three principal ways’ economic efficiency can be defined:

**Table 4.7      Principal Definitions of Economic Efficiency**

<b>Type of Economic Efficiency</b>	<b>Definition</b>
Productive or technical efficiency	The use of scarce resources in the most technologically efficient manner.
Allocative efficiency	The efficient allocation of productive resources amongst alternative uses so as produce an optimal combination of output.
Dynamic efficiency	The economically efficient use of scarce resources through time.

*Source:* Dollery and Wallis (2001, pp. 5–6).

In applying the definitions of economic efficiency outlined in Table 4.7 within the context of structural reform in local government, it is important to note that, whilst allocative efficiency can be discussed in theoretical terms, its practical application to a council is problematic, as outlined by Dollery, Crase and Johnson (2006 pp. 195–196). In a local government setting, a range of outputs are typically being produced at the same time, using multiple inputs, therefore it is difficult to ‘identify technically efficient states’. Furthermore, it is very difficult for a council to identify the actual preferences of a local community ‘in terms of quantity and quality, to identify an allocatively efficient state’. In applying the abovementioned definitions in the following discussion, allocative efficiency is the focus in Section 4.3 as it relates to structural reform in local government from a theoretical perspective. In Section 4.4 the emphasis is on how institutional arrangements affect productive efficiency in relation to economies of scale, densities and scope.

The following discussion should also be prefaced with the statement that the economic efficiency framework may not, in itself, be the best way to understand best practice in local government service provision. For example, council's role in building social capital in a local area may be difficult to measure using an economic efficiency framework, but may be considered by some councillors, council officers and ratepayers to be an important local government service.

#### **4.3 THEORETICAL APPROACHES TO LOCAL GOVERNMENT STRUCTURAL REFORM**

This discussion about structural reform in local government begins with a consideration of various economic theories of fiscal federalism, which are 'concerned with the question[s]: which levels of government (national, state or local) should provide specific categories of public goods?' (Dollery, Ho and Alin 2008, p. 75). Or: '[W]hat is the optimum organisational size for the delivery of public services?' (Andrews and Boyne 2012, p. 297). It is important to note that these theories do not explain how councils came to be responsible for the services they deliver today, nor do these theories explain the current sizes and shapes of local government areas. Dollery and Robotti (2008, p. 9) contended that 'in most advanced countries, contemporary local government thus arose from historical accident rather than by deliberate design ... and that path dependency assumes special significance in explaining the current role and structure of any system of modern local government'. Alternatively, Hlepas (2010 p. 224) described the evolution of local government as a political process: '[T]he organisation of sub-national levels of government and governance is the outcome of a political process, where the politics of territorial choice are influenced by societal arrangements and dynamics, with the balance between different interests mediated through political processes'. Therefore, it is important to note that the fiscal federalism theories discussed below, some of which were introduced in Chapter 2, thus represent a normative analysis of how public goods should be provided in a federal system of government in order to maximise efficiency.

#### 4.3.1 OATES (1974) 'CORRESPONDENCE PRINCIPLE' AND 'DECENTRALISATION THEOREM'

According to Oates (1972), the theoretical rationale for delivering public goods at the local government level within a federal system of government is based upon the 'correspondence principle' and the 'decentralisation theorem'. The correspondence principle states that 'the jurisdiction that determines the level of provision of the public good includes precisely the set of individuals who consume the good' (Oates 1972, p. 34). Dollery and Wallis (2001, p. 15) argued that 'accordingly, each public good (or, more generally, each function of government) should be provided by the smallest (that is, lowest-level) government consistent with no spatial spillovers in adjacent administrative regions'. Why is this so? Because the full internalisation of all the benefits and costs associated with providing a public good at the lowest level of government creates an incentive to produce optimal levels of the public good. Allocative efficiency, also known as Pareto-efficiency, is then achieved if these costs would have been the same for higher levels of government. Pareto-efficiency is described as when 'it is impossible to improve anyone's welfare by altering production or consumption without reducing someone else's well-being' (Dollery and Wallis 2001, p.7).

The correspondence principle requires that public goods have 'benefit areas'. Dollery and Wallis (2001, p. 15) stated that 'almost all public goods have limited geographical areas in which they confer benefits on citizens'. It is this notion of 'benefit areas' for public goods where some practical limitations of the correspondence principle can be found. For example, Dillinger and Fay (1999, p. 20) stated that, 'as a practical matter, it is often difficult to define the scope of benefits of a specific service and to determine which specific jurisdiction will reap these benefits'. Furthermore, Helm and Smith (1987, p. iv) raised the question: 'given that there are many public goods at all sorts of levels, and given [that] we cannot have an infinite number of layers of government, how do we decide at what level to set up government functions?' Given the latter limitation, the concept of 'functional federalism' emerged in order to more closely align public goods with their benefit areas. This would be achieved 'through creating independent jurisdictions to provide particular public services'. The definition of these 'functional administrations', in terms of geographical and functional scope, would be different from

the scope of existing political jurisdictions (Dollery and Robotti 2008, p. 21). It can be argued that functional federalism also has its practical limitations, since it is not reasonable to have an independent jurisdiction for each public good with a unique benefit area. This practical reality was highlighted by Fenna (2006, p. 7), who observed that ‘According to Olson (1969), ‘there is a need for a separate governmental institution for every collective good with a unique boundary, so that there can be a match between those who receive the benefits of a collective good and those who pay for it. This match we define as “fiscal equivalence”’. He went on to state that a form of functional federalism would necessarily result from the application of fiscal equivalence and that ‘while some advocate (e.g. Frey and Eichenberger 1999) such an arrangement, most public finance theorists would defer to practical realities and regard the standard three tiers of government as a given, and seek to allocate tasks according to [the] best approximate fit’ (Fenna 2006, p.7).

The decentralisation theory holds that ‘in the absence of cost-savings from the centralized provision of a good and of interjurisdictional external effects [spatial spillovers], the level of welfare will always be at least as high (and typically higher) if Pareto-efficient levels of consumption of the good are provided in each jurisdiction than if any single, uniform level of consumption is maintained across all jurisdictions’ (Oates 1972, p. 54). Why is this so? Dollery and Robotti (2008, p. 11) stated that since ‘decentralised local governments are presumed to possess superior knowledge of their local economic and social situation, they can provide local public services which better suit local citizens and thereby enhance the total social welfare. By contrast central governments, for various reasons, are usually bound to offer a uniform public good to all citizens’. Dollery, Crase and Johnson (2006, p. 49) argued that the reasons for this include ‘administrative convenience and insufficient information on regional preferences’. It is important to note that these statements are only valid if it is assumed that ‘local preferences determine the composition of local service provision [and that these] ... preferences are never spatially uniform’ (Dollery, Ho and Alin 2008, p. 75). Dollery et al. (2008, p. 78) went on to argue that ‘local service provision should thus be decided at the local level, implying the retention of small councils’.

The first ‘real world’ limitation of the decentralisation theory is that ‘it assumes a “benevolent” government which is exclusively motivated by a desire to maximise total

welfare, rather than seeking more base objectives’ (Dollery and Robotti 2008, p. 11). Public choice theorists claim that public goods are delivered by institutions made up of elected representatives and public servants who ‘use the resources and opportunities available to them to pursue their own objectives rather than the “common good”’ (Dollery and Wallis 2001, p. 44). Using public choice theory, the value of decentralisation lies in the accountability it can potentially generate. Dollery and Robotti (2008, p. 11) noted that ‘in the public choice approach, the decentralisation of government functions is justified as long as it makes politicians and administrators accountable for their actions, since bureaucrats and their political masters may possess malevolent, rather than benevolent intent’.

A further limitation rests on the assumption that central governments are not able to respond effectively to local preferences. Oates (2006, p. 11) contended that ‘in fact, central government responsibility for local public goods does not, in practice, rule out such sensitivity to local conditions. Under some administrative structures, the center may confer on their local agents both the responsibility and the authority to be responsive to local circumstances in their determination of local programs’. Finally, it is important to note that decentralisation theory can be valid only if it is assumed that local preferences are homogenous within a particular local area and yet different to the preferences to another local area. If local preferences for public goods do not change between local areas, or preferences for public goods within a local area are heterogeneous, then decentralisation holds no advantage over centralisation (Dollery and Robotti 2008).

#### 4.3.2 TIEBOUT (1956) MODEL

Tiebout (1956) challenged the notion that ‘no “market type” solution exists to determine the level of expenditures on public goods’ by conceptualising a type of competition between sub-national governments (Tiebout 1956, p. 416). Oates (2006, p. 23) described the Tiebout model as one that aims to apply the idea of a competitive market to the delivery of public goods. In doing this, Tiebout is able to apply ‘the various properties of a competitive equilibrium’ in order to demonstrate that the cost of public goods delivered at the local level ‘induces individuals to reveal their preferences for



local public goods and does so in such a way as to promote an efficient use of resources’.

Tiebout considered the example of a citizen living in the city who was considering a move to the suburbs. He contended that the citizen would move ‘to that community whose local government best satisfies his set of preferences. The greater the number of communities and the greater the variance among them, the closer the consumer [or citizen] will come to fully realising his preference position’ (Tiebout 1956, p. 418). The ideal-type Tiebout model, as described by Tiebout himself, contains the following assumptions:

1. Consumer-voters are fully mobile and will move to that community where their preference patterns, which are set, are best satisfied;
  2. Consumer-voters are assumed to have full knowledge of differences among revenue and expenditure patterns and to react to these differences;
  3. There are a large number of communities in which the consumer-voters may choose to live;
  4. Restrictions due to employment opportunities are not considered. It may be assumed that all persons are living on divided income;
  5. The public services supplied exhibit no external economies or diseconomies between communities;
  6. For every pattern of community services ... there is an optimal community size. This optimal size is defined in terms of the number of residents for which this bundle of services can be produced at the lowest average cost, and
  7. Communities below the optimum community size seek to attract new residents to reduce average costs. Those above optimum size do just the opposite. Those at an optimum try to keep their populations constant.
- (Tiebout 1956, p. 419)

Dollery and Robotti (2008) demonstrated how the Tiebout model provides a theoretical explanation for the homogeneity of local preferences for public goods within a local area. They began by stating that ‘even with decentralized provision of public goods, some people would be dissatisfied since preferences will not be perfectly homogeneous’ (Dollery and Robotti 2008, p. 14). As we have seen, the Tiebout (1956) model then claims that, since citizens are socially mobile, if they are dissatisfied with the public goods delivered in a locality they can move to another jurisdiction where the delivery of public goods is more responsive to their local preferences. Dollery and Robotti (2008, p. 15) concluded that ‘the chief implication of the model in this context is that, as a result of population movement, each local community would be formed by homogenous citizens who obtain their desired level of public goods at their desired level of taxation’. This model also provides a theoretical ‘market type’ explanation as to how decentralisation achieves an efficient delivery of public good through competition. As a

result of the ‘spatial mobility’ of citizens, ‘local communities will compete for citizens through the efficient provision of public services (that is, higher quality and lower cost)’ (Dollery and Robotti 2008, p. 15).

Intuitively, there are two key limitations of Tiebout’s (1956) model. First, cheaper public goods or more responsive delivery of public goods are not key drivers for why citizens move from one jurisdiction to another. Second, many local jurisdictions remain relatively heterogeneous. For example, a small council area may still be made up of citizens of different ages or varying income levels, resulting in different preferences for public goods. Dollery and Robotti (2008 p. 16) explained these limitations in the following way: ‘in general, residential migration is not statistically influenced by the provision of public goods. Moreover, the empirical work demonstrates that local communities are still characterised by a high degree of heterogeneity’. In addition, Biggs, Dowding and John (1994) reviewed over 200 articles and books relating to the Tiebout (1956) model. Some of their key findings are listed in Table 4.8.

**Table 4.8 Summary of Findings: Empirical Studies into the Tiebout Model**

<b>Tiebout Model Assumption</b>	<b>Findings</b>
The relationship between the number of jurisdictions and citizen satisfaction.	There is limited empirical evidence in support of the notion that customer satisfaction levels with public goods provided at the local level increases with the number of local jurisdictions.
Competition between jurisdictions.	Little or no empirical evidence exists to suggest that competition between local jurisdictions increases as the number of local jurisdictions increases. However, there is evidence of lower expenditure where there are more local jurisdictions. This may be due to reduced opportunities for maximising budgets unnecessarily, restrictions in the types of public goods provided, and/or engaging in fewer redistributive activities.
Municipal integration (amalgamation).	The theory that amalgamation can be justified solely on economic efficiency grounds is not supported by the empirical evidence.
The relationship between the number of jurisdictions and homogeneity.	The level of homogeneity between local jurisdictions increases as the number of local jurisdictions increases.
Spatial mobility determinants.	Empirical evidence demonstrates that the mix of public goods and the cost of these goods does affect where people choose to live.

*Source:* Adapted from Biggs, Dowding and John (1994, p. 17).

In addition to the observations made about the relevance and applicability of the Tiebout (1956) model in Table 4.8, writers have questioned the relevance of the model in different countries. John, Dowding and Biggs (1995, p. 381) pointed out that it may have more relevance to local governments in the United States rather than Great Britain since people are less likely to move between local government areas in Britain than in

the United States, the rates system is ‘complex, making inter-borough comparison difficult (though not impossible)’, and since 1972 Britain has both larger and fewer local government areas than the United States. John et al. (1995, p. 381) concluded that Tiebout’s model relates only to a set of institutional arrangements set out by the model and it is only in those circumstances that ‘taxes and services could influence residential choice’. Similarly, Dollery, Crase and Johnson (2006, p. 54) argued that Australia’s institutional arrangements may also not be conducive to the application of the Tiebout model:

For instance, many important local goods and services, such as education, health, and law and order are provided in Australia by state governments – since these services represent important reasons for American mobility between municipal areas, there is correspondingly little incentive to migrate from one council area to another in an Australian state.

#### 4.3.3 THE THEORY OF CLUBS

Sandler and Tschirhart (1997, p. 336) claimed that ‘the study of clubs was intended to bridge the gap between private and pure public goods. For the former, consumption rivalry is complete and exclusion is costless; while for the latter, consumption is nonrivalrous and exclusion is infeasible’. The theory of clubs begins by distinguishing between the optimal consumption arrangements for a private good and a public good. In the case of a purely private good, ‘the preferred club membership, is clearly one person (or one family unit), whereas the optimal sharing group for the purely public good, as defined in the polar sense, includes an infinitely large number of members’ (Buchanan 1965, pp. 1–2). Buchanan then went on to argue that goods and services exist on a ‘conceptual public-private spectrum’. His theory of clubs referred to ‘club goods’ that were located along this spectrum and defined by Sandler and Tschirhart (1997, p. 336) as a ‘class of public goods ... excludable and subject to some rivalry in the form of congestion’. Buchanan (1965, pp. 1–3) stated that ‘the central question in a theory of clubs is that of determining the membership margin, so to speak, the size of the most desirable cost and consumption sharing arrangement’. The theory of clubs contends that as more people join a club, the cost of supplying benefits to club members reduces. However, as the membership of a club increases, at some point ‘congestion will set in’, and the benefits of being in the club for each person will begin to decline. The optimal size of a club is thus the size where each club member’s benefit is maximised at lowest cost.

Dollery and Wallis (2001, p. 17) applied this concept of the optimal size of a club to government: ‘there is an allocatively efficient size of government, which occurs when the marginal social benefits of consumption equal the marginal social costs associated with congestion’. The relevance of the theory of clubs was also argued by Sandler and Tschirhart (1997, p. 352) in that it forms ‘the theoretical basis’ of the Tiebout (1956) model. They also described the Tiebout (1956) model as a modern theory of clubs, ‘whereby a heterogeneous population partitioned themselves into homogeneous clubs by choosing the jurisdiction with the tax-public good package that best suited their tastes. The resulting partition is Pareto optimal’ (Sandler and Tschirhart 1997, p. 335). However, Dollery and Robotti (2008, p. 18) discussed various limitations of the theory of clubs as it relates to public goods. These limitations are summarised in Table 4.9.

**Table 4.9 Limitations of the Theory of Clubs**

<b>Limitation</b>	<b>Description</b>
Central versus decentralised government	The theory of clubs does not address the question: At what level of government should public goods be provided, and why?
Technology	The theory of clubs does not consider the impact of economies of scale and scope relating to the production of public goods nor does it consider the practical limitations associated with applying this theory to public goods which are indivisible and nonexclusive.
Involuntary nature of jurisdictions	The application of the theory of clubs to public goods is limited by the fact that residents of a particular area must pay for the public goods provided. This contribution is not voluntary as described by Buchanan (1965) in terms of a club.
Delivery of more than one public good	Local jurisdictions deliver a range of public goods, each with their own ‘optimal size’, whereas Buchanan’s (1965) concept of a club refers to the provision of a single good. If a club (local jurisdiction) was established for each public good (functional federalism), the administration and management costs associated with numerous local jurisdictions would outweigh the benefits from ‘optimal size’ for that club (local jurisdiction).

*Source:* Adapted from Dollery and Robotti (2008, p. 18).

Table 4.9 highlights the practical limitation of an ‘optimal size’ for local jurisdictions in the delivery of public goods. It is important to reinforce the point that the ‘optimal size’ of jurisdictions proposed by all the theories mentioned is theoretical. In fact, Dollery and Robotti (2008, p. 18) argued that ‘it is only a matter of chance whether a jurisdiction’s political scope and economic scope are the same. In the majority of cases the size of a jurisdiction is not optimal (at least in economic terms) ... Despite this fact, these theories can provide a ‘way forward’ when determining the scope and purpose of local government structural reform’. Dollery and Robotti (2009, pp. 18–19) stated ‘there is a need for structural reforms which can modify the administrative and geographical

scope of jurisdictions in order to increase efficiency in the provision of public goods and to internalise any externalities’.

#### 4.3.4 SECOND-GENERATION THEORIES OF FISCAL FEDERALISM

Qian and Weingast (1997) and Weingast (1995, 2006) provided interesting new contributions to the federalism debate. Qian and Weingast’s (1997) work, discussed in Chapter 2, relates to the value of a federal system in not inhibiting market incentives so that governments act only in response to instances of market failure. Weingast (1995, p. 4) provided the foundation for Qian and Weingast’s (1997) work by defining in theoretical terms a ‘market preserving federalism’. This definition is made up of the two basic features of a federal system: a hierarchy of government with each level being autonomous, and three further characteristics:

- Subnational governments have primary regulatory responsibility over the economy.
  - A common market is ensured, preventing the lower governments from using their regulatory authority to erect trade barriers against the goods and services from other political units.
  - The lower governments face a hard budget constraint, that is, they have neither the ability to print money nor access to unlimited credit.
- (Weingast 1995, p. 4)

Weingast (2006, p. 53) provided a concise description of second-generation theories of fiscal federalism by stating that ‘the hallmark of second generation models is that they trace the implications of incentives created by political and fiscal institutions’. Both Dollery and Robotti (2008, p. 22) and Oates (2005, p. 356) contended that, in order to do this, these theories are based in academic disciplines beyond public economics. For example, Oates (2005, p. 356) claimed that ‘work in public choice and political economy ... and literature on problems of information’ were the two key theoretical frameworks underpinning second generation theories of fiscal federalism. First, public choice theory, which was introduced in the discussion above, questions the notion of a benevolent government and views greater accountability as one of the main advantages of decentralisation. Second, there is the issue of asymmetrical information in governments, ‘where some participants have knowledge of such things as preferences, cost functions, or effort, knowledge that is not available to other participants’ causing jurisdictions to not perform in an optimal manner in theoretical terms (Oates 2005, p. 356). Oates (2005, p. 356) contended:

[W]hat emerges from these two sources is a new literature on fiscal federalism that examines the workings of different political and fiscal institutions in a setting of imperfect information and control with a basic focus on the incentives that these institutions embody and the resulting behaviour they induce from utility-maximizing participants. In this setting, the basic issue of whether to centralize or decentralize certain public activities appears in a somewhat (but not altogether) different light.

For example, some second generation theories of fiscal federalism use the ‘principal-agent’ model to question the autonomy of decentralised governments in a federal system by introducing the notion that the central government ‘structure[s] intergovernmental fiscal relations’ so that local governments (agents) conduct their operations in a way that is consistent with the policy objectives of ‘central officials’ (principal). This occurs within a context of central governments having ‘imperfect information’ and ‘imperfect control over the fiscal activities of decentralised public agents’ (Oates 2005, p. 357).

Swianiewicz and Mielczarek (2010, p. 308) provided an example of this in their article on local government reform in the European country of Georgia. In their description of the current political system in this country they used the term ‘authoritarian’, whereby the central government imposes policies on local government and the ‘national political leaders’ have a ‘strong pro-centralisation attitude’. They stated that Georgia’s local government reform ‘was limited to the redrawing of administrative boundaries by the omnipotent (Leviathan) state and was not accompanied by parallel functional or fiscal decentralisation’ (Swianiewicz and Mielczarek 2010, p. 291).

Conversely, Seabright (1996) and Tommasi (2003) used the ‘principal-agent’ model to demonstrate the value of decentralised jurisdictions operating independently of a central government. Seabright’s (1996) model develops the idea that decentralised jurisdictions are more accountable by evaluating the merits of centralisation versus decentralisation in terms of how effectively elected officials (agents) represent the interest of local citizens (principals). His model discusses the ‘trade-off between coordination and local accountability’ (Oates 2005, p. 359). Seabright (1996, p. 65) contended that:

[D]ecentralisation gives control over the policy variables of a country to a number of different regional or local governments, but grants to the electors of each region or locality complete power to decide the government’s re-election. Centralisation grants control over all of the country’s policy variables to a single government, but ensures that regions and localities no longer have the ability to determine re-election individually but must do so in concert with others whose interests may not coincide with theirs.

The resulting trade-off is that whilst centralisation allows government action to be coordinated across all jurisdictions, accountability to local preferences is reduced. Central to Seabright's (1996, pp. 65–66) model is the definition for reduced accountability whereby voters in a jurisdictions experience a 'reduced probability' that they will be able to 'choose to elect or reject a government at election time' based solely on their views of how the government performed. Ultimately, Seabright (1996) is arguing that centralisation dilutes the influence a local area can exert over a government. Seabright (1996, pp. 65–66) argued that reduced accountability acts as a 'disincentive' for a government 'to act in the interests of that region'. This is because 'each region's welfare is non-verifiable'; and the only way to judge a government's performance is by deciding 'whether or not to re-elect it'.

Similarly, Tommasi (2003, p. 2) also sought to model a similar trade-off between one benefit of a centralised government, 'namely the internalization of externalities' and the already-mentioned disadvantage of 'having decision-making further removed from the citizenry'. In Tommasi's (2003) model the principal is also seen as a group of electors rather than an individual, and the agent is the government. The principal enters into a collective contract with the agent through voting. Oates (2005, p. 358) stated that using this model, it could be argued that one agent (a centralised government) represents the entire population, whereas in a decentralised system there is a government for each jurisdiction and therefore centralisation versus decentralisation becomes a question of 'optimal contract' rather than 'optimal size'. Oates (2005, p. 358) then stated that this model 'leads to an interesting comparison of outcomes under the alternative regimes ... what is new here is the finding that decentralization may be preferable even in cases of perfect homogeneity of preferences across local jurisdictions [as opposed to the original decentralisation principle espoused by Oates (1972)]. The case for fiscal decentralization depends not only on differences in tastes, but on the potential for better local control or "accountability" under decentralized provision'.

#### **4.4 SIZE OF LOCAL GOVERNMENT AND LOCAL GOVERNMENT EFFICIENCY**

Having established the economic value of sub-national or local governments, and discussed the optimal size of these jurisdictions in theoretical terms, consideration can now be given to the first of two key questions that are central to structural reform in

local government: What is the relationship between size and the efficient operation of local government? Whilst it has been stated above that the term ‘efficient’ in this context refers to productive efficiency, there is a need to define what is meant by the term ‘size’ in the delivery of local government services. Swianiewicz (2002, p. 5) noted that ‘there are at least two potential measures of the size of a local government: population number and surface area’. Swianiewicz (2002, p. 5) contended that the costs of some local government services are predominantly a function of population, whilst others are more a function of area, and there may be examples of local government services where both of these factors are relevant. Swianiewicz (2002, p. 5) also briefly mentioned the theoretical value of using population density in determining service delivery costs. However, in practical terms this factor has limited value, as no structural reform options available to public officials would have an effect on population density within an existing local government area. In the following discussion, the size of a local government area is referred to in terms of population size, as Swianiewicz (2002, p. 5) contended that ‘population number seems to be the most popular and powerful indicator’. Population size is also used because it provides a ‘clear and transparent proxy for total output’ and that ‘population size is the measure used in debates on reorganisation’ (Andrews and Boyne 2009, p. 748).

#### 4.4.1 THEORETICAL PERSPECTIVES

##### Economies of Scale

Proponents of amalgamation in local government invariably cite economies of scale as being the key benefit of this type of structural reform (De Ceunincka, Reynaerta, Steyversa and Valckea 2010, p. 806; Swianiewicz 2010, p. 185). Keating (1995, p. 117) described this as one of the ‘great issues of principle which have animated the debate on consolidation: ... [namely] which scale of structure can produce most service as least cost’. In theoretical terms, the discussion about economies of scale in local government can begin with Dollery, Grant and Kortt’s (2012, pp. 102–103) treatment of economies of scale from a conceptual viewpoint. They observed that economies of scale ‘translate’ the returns to scale in a production process ‘into pecuniary values’. Returns to scale refer to ‘how output responds to increases or decreases in all inputs’ in a production process. Expressed differently, if all inputs are doubled, returns to scale will determine whether output will double (constant returns to scale), more than double (increasing



returns to scale), or less than double (decreasing returns to scale). They went on to summarise that increasing the scale of a typical production process allows for greater specialisation in the use of inputs, which in turn increases the returns to scale. However, increasing the scale of production also increases the complexity of the production process and associated managerial functions to the point whereby the production process becomes too big and productivity begins to decline. As a result, returns to scale begin to decrease. Expressed in pecuniary terms, increased returns to scale are known as economies of scale where ‘the average cost of a unit of output declines’ (Dollery et al. 2012, p. 103). In the context of local government, increasing the scale of production has typically been sought by increasing the size of jurisdictions. It can then be argued that larger local government areas can deliver services at a lower per capita cost.

Caution should be exercised when using the argument that economies of scale can be achieved through larger local government jurisdictions. Economies of scale as described above refer to a production process whereby a ‘homogenous good is produced’ (Byrnes, Dollery and Webber 2002, p. 202). As we observed in Chapter 2, it is important to note that Australian councils provide a diverse range of services to residents. Given this diversity, Byrnes et al. (2002, p. 203) made the fundamental point that ‘each function has its own cost per unit of output. It is thus impossible to measure economies of scale for the whole of local government’. Further, ‘we need to distinguish between different services and functions and then test each function separately for scale economies’. Vojnovic (2000, p. 387) concurred with this observation: ‘different services produce minimum average costs at different scales of production’. Consequently, Dollery, Grant and Kortt (2012, p. 104) concluded that ‘where local government authorities produce a range of different services, each with its own product characteristics, no single size of government will be able to produce all services at the minimum possible cost for each service in question’. They also provided a general guide as to which local government services may see economies of scale in larger local government jurisdictions. In this regard, Dollery et al. (2012, p. 104) stated that ‘capital-intensive services, like domestic water supply and sewerage and disposal, usually yield substantial economies of scale since the cost of fixed assets can be spread across a larger number of households’. However, other local government services that are ‘labour intensive, consumer orientated services such as health inspectors and municipal rangers, generate few scale economies because their idiosyncratic nature means that an increased volume of

services requires a correspondingly larger number of workers' (Dollery et al. 2012, p. 104).

Dollery, Grant and Kortt (2012, pp. 104–105) considered scale economies to be a conceptually weak argument for the amalgamation of councils into larger jurisdictions for several reasons. First, given that scale economies are dependent of the product or service being produced, a larger local government jurisdiction may yield economies of scale through better utilisation of plant or discounts through greater purchasing power. However, bigger councils may result in diseconomies of scale with greater managerial costs associated with the delivery of some services to a larger population. Dollery et al. (2012, p.104) observed that 'management problems are typically compounded when amalgamation breaks the close links between small councils and their residents'. Second, given the evolution of local government 'towards relatively labour intensive "services to the people"', as discussed in Chapter 2, scale economies may, through amalgamation, become more difficult to realise (Dollery et al. 2012, p.104). Finally, there are other ways for councils to realise scale economies for particular services through models of service delivery, such as 'contracting out' or 'resource-sharing' agreements with adjoining local government authorities' (Dollery et al. 2012, p.105).

This point was also made by Faulk and Grasmueck (2012, p. 202), who stated that 'proponents of consolidation posit that by increasing the service area, the merged government units take advantage of economies of scale'; however, 'nonconsolidated governments may participate in various cooperative or regionalism schemes such as interlocal agreements to achieve the same results as consolidation'.

Allan (2003, p. 79) also took up this conceptual challenge of what local government structural reform should focus on, given the assumption that scale economies may only relate to some local government services. He cited examples from other levels of government and the private sector whereby particular functions, such as human resources, procurement and legal services are centralised 'to free up their autonomous business units to concentrate on their core operations' (Allan 2003, p. 79). Taking this to its logical conclusion, Allan (2003, p. 79) suggested the establishment of 'Joint Service Centres' so that 'councils would be required to transfer those services that would benefit from being done on a larger scale to a shared-service centre (SSC).

The SSC would be jointly owned and governed by its member councils'. He went on to suggest that these centres would have a 'sunset clause on its exclusive mandate' as this clause would act as an incentive for the SSC to provide value for money to member councils.

In addition to the LGAQ (2005) shared-services models of 'resource sharing through service agreements' and 'resource sharing through joint enterprise' described in Table 4.2 above, there have been a number of theoretical taxonomies developed in support of shared services in local government. For example, Table 4.10 summarises the Tomkinson (2007) typology of shared services.

**Table 4.10 Tomkinson (2007) Typology of Shared-Services Models**

Model	Description
Inter-Service Model	Typically includes shared services in relation to a particular service (or a limited number of services) through an informal agreement between participating councils. Often described as ' <i>ad hoc</i> resource sharing between groups of councils'.
Service Model	A more formal approach whereby one council ('lead council') formally controls the management and delivery of a service on behalf of a group of councils.
Corporatist Model	Involves a group of councils entering into a 'joint arrangement to deliver a specific service or services' through 'a joint governing body' consisting of the member councils and entity delivering the service.
Supra-Corporate Model	The establishment of a 'joint venture company' or a 'not-for-profit organisation' to deliver services for a group of councils.

Source: Adapted from Dollery, Grant and Crase (2011, p. 158).

Dollery, Grant and Akimov (2010) presented an alternative typology based on their observations of Australian local government, as summarised in Table 4.11.

**Table 4.11 Dollery, Grant and Akimov (2010) Typology of Shared-Services Models**

Model	Description
Horizontal Shared-Service Model	Includes all shared services arrangements 'from simple <i>ad hoc</i> resource sharing to fully-fledged area integration models'. These shared services arrangements remain 'wholly operated and owned by local councils'.
Vertical Shared-Service Model	Councils partner with the 'state/provincial/national local government association'. Typically, an association offers a service to member councils using the user pays model (Dollery, Hallam and Wallis 2008).
Intergovernmental contracting	Councils deliver services on behalf of higher levels of government. This can occur on 'an <i>ad hoc</i> basis for specific tasks'. Such arrangements are negotiated and are not examples of cost shifting whereby 'local councils are forced to undertake [services] at the behest of higher tiers of government'.

Source: Adapted from Dollery, Grant and Akimov (2010, p. 158).

If the models of voluntary cooperation between councils outlined in tables 4.10 and 4.11 are to become robust models in practice, they must be sustainable over the long term.

Dollery, Grant and Crase (2011) used the theory of social capital (Putnam 1995) to identify circumstances whereby shared services in local government would most likely be successful. Cavaye (2004, p. 3) contended that 'social capital has many definitions and perspectives. There is no one clear definition of the concept and this diversity of interpretation is an important element of social capital'. Despite this difficulty in defining the nature of social capital, the concepts often associated with social capital are 'participation in networks, reciprocity, trust, social norms, a sense of the 'commons', proactivity and co-operation' (Cavaye 2004, p. 3).

Cavaye (2004, p. 6) also argued that there are different 'levels of social capital'. At the 'community and/or institutional level', social capital refers to relationships and interactions between individuals and groups and would include social and institutional 'norms'. It is within the context of local government 'norms' where the theory of social capital can illuminate issues associated with the success or otherwise of shared services. Take, for example, the 'local control' of council services, which can potentially be a very strong local government norm embedded in the institutional history of a council and derived from a 'sense of place' experienced by an entire local community (Dollery, Grant and Crase 2011, p. 162). Whilst scope economies may be achieved by a group of councils partnering to deliver a particular service at a regional level, 'the perceived need for local control may still rule out shared service provision of the service under consideration'. Similarly, 'a desire for local control may in turn often be linked to the level of mutual trust [or social capital] existing between elected representatives and professional officers of the group of councils in question' (Dollery et al. 2011, p. 162). What social capital theory demonstrates is that, ultimately, the success of shared services as a viable structural reform option may relate more to the presence of strong 'social networks, mutual trust and other elements central to the social capital approach' rather than simply scale economies alone (Dollery et al. 2011, p. 164).

### Other Factors

Economies of densities, economies of scope and increased strategic capacity are often cited as benefits of structural reform in local government. Each of these purported benefits is considered below in theoretical terms.

### **Economies of Density**

Dollery, Grant and Kortt (2012, p. 124) observed that ‘economies of density are said to exist when a 1% increase in all outputs – holding the size of a network fixed – increases the organisation’s cost by less than 1%’. They went on to explain that economies of density are best demonstrated in the transportation sector. For example, when the average cost of providing a bus service decreases as buses run more frequently (or more seats are provided on existing buses) along the same route, economies of density are present. They also noted that researchers had begun to conceptualise economies of density using population densities. That is, what effect does population density have on local government expenditure?

Population density can potentially interact with the population size to either reduce or increase local government expenditure. If the population size remains the same whilst population density increases, this may have the effect of reducing costs by spreading these costs over a more densely populated area. For example, the cost to a council of supplying water and waste water services to 1,000 people across 10 square kilometres is likely to be more than supplying water and wastewater services to 1,000 people across 5 square kilometres due to the reduced length of pipe and other materials required. However, this more densely populated area may also have the effect of increasing council expenditure. For example, a council may need to increase its expenditure on crime prevention programs or other social services to address the social disharmony that may result from people living in closer proximity to each other.

Notwithstanding the view held by Swianiewicz (2002, p. 5) that population density considerations have a limited capacity to direct structural reform programs, Dollery, Grant and Kortt (2012, p. 124) argued that ‘this measure [economies of density] is of particular importance when defining the optimal size of a service area for regional and rural transport industries. Moreover, this measure would also be relevant in determining

the cost impact associated with prospective resource-sharing arrangements between two adjoining regional transport industries’.

### **Economies of Scope**

Economies of scope can be found in production processes where more than one output can be generated at the same time. Increased returns to scope is said to have been achieved if a joint production of two outputs produces more than two separate production processes given the same amount of inputs. Conversely, decreased returns to scope refers to the situation whereby given the same amount of inputs, the joint production of two outputs yields comparatively fewer outputs than two separate production processes. Finally, constant returns to scope refer to when the amount of the two outputs are the same from either the joint production process or the two separate processes. In a similar way to returns to scale, returns to scope can be expressed in pecuniary terms as described by Dollery, Grant and Kortt (2012, pp. 126–127): ‘Increasing returns to scope are reflected in increasing economies of scope (that is, falling average cost of output)’. Dollery et al. (2012, p. 126–133) identified four different potential sources of economies or diseconomies of scope in local government, as summarised in Table 4.12.

**Table 4.12 Sources of Economies or Diseconomies of Scope in Local Government**

Economies/Diseconomies of Scope	Summary
Diminishing returns to inputs	For example, economies of scope are achieved when one council department that is responsible for fielding enquiries about development applications and building certification replaces two council departments. Cost reductions are achieved by needing to manage only one department rather than two. However, if the number of customer service staff (inputs) remains the same, allocating more staff to development application enquiries will result in a reduced number of staff for building certification enquiries, or vice versa. Dollery, Grant and Kortt (2012, p. 127) described it as ‘increasing amounts of an output X have to be given up as a municipality increasingly specialises in the production of the other output Y’.
Jointness in inputs	Dollery, Grant and Kortt (2012, p. 128) stated that jointness in inputs ‘occurs when one input can be used in the production of more than one output’. For example, in order to fully utilise plant and equipment a council may contract the use of these capital items to neighbouring local government areas. Another example could be community groups using meeting rooms in a council administration building rather than constructing a new community centre for the same purpose. Similarly, in order to maximise the utilisation of staff, officers who are not fully occupied could be asked to deliver an additional service/s. It is important to note that jointness in input can also result in diseconomies of scope. Dollery, Grant and Kortt (2012, p. 127) stated that ‘council managers may not be able to perform their jobs efficiently if they are simultaneously trying to manage a complex set of problems associated with a range of different and competing council activities’.
Jointness in outputs	<p>Refers to economies (or diseconomies) of scale whereby more than one output results from ‘the same (or approximately the same) set of inputs’. Typically in this situation there is a predominant output and other ‘by-products’. A pure by-product results from the exact ‘same set of inputs’, whereas an ‘impure’ by-product results from small amount of additional inputs.</p> <p>Dollery, Grant and Kortt (2012, p. 129) used municipal waste service as an example of this type of economies or scope. They illustrated that not only do council officers at a waste facility manage the collection and processing of domestic and commercial waste, an impure by-product of this production process is the collection, sorting and processing of recyclable material.</p>
Interactions between production processes	These interactions occur ‘when the outputs from one process are inputs into the second process.’ Dollery, Grant and Kortt (2012, p. 131) identified two different types of interactions between production processes that achieve economies or diseconomies of scope. First, informational interactions occur when delivering one council service provides information used in producing another council service. For example, maintenance crews working in council parks and open space areas collect information about the local natural environment that would assist environmental officers in their environmental and monitoring role. Second, physical interactions can occur and ‘tend to be more common in the production of goods’, for example, ‘the cultivation of a legume crop resulting in nitrogen fixation that benefits the next crop planted in the same ground’ (Dollery, Grant and Kortt 2012, p. 131).

*Source:* Adapted from Dollery, Grant and Kortt (2012, pp. 126–133).

In addition to the types of economies or diseconomies of scope described in Table 4.12, two further arguments for amalgamation in local government are closely related to

economies of scope. First, according to Dollery, Ho and Alin (2008, p. 78), it is sometimes argued that ‘fewer local councils results in lower administration and compliance costs. This argument is analogous to claiming that scale economies exist in both administration and compliance’. Dollery, Crase and Johnson (2006, p. 148) defined administrative costs as the ‘compensation paid to elected and appointed officials and staff and the overheads (buildings, supplies, utilities, etc.) required to support those officials’. They also defined compliance costs ‘as costs incurred by municipal voters to keep informed on issues and candidate positions and the potential cash and time of registering an opinion by participating in hearings, meetings, voting, and other activities’. Dollery, Ho and Alin (2008, p. 78) stressed the other side of this argument, which contends that larger councils are less able to translate policy decisions into action due to a larger bureaucracy, possessing comparatively less local knowledge and being less responsive to the local preferences. Dollery, Crase and Johnson (2006, pp. 148–149) also argued that ‘ultimately diseconomies of scale could result, with larger governments requiring proportionately more administrators (perhaps with more layers in the administrative hierarchy)’.

Second, Dollery, Crase and Johnson (2006, pp. 147–148) noted that larger councils are more successful in attracting staff with higher levels of ‘administrative’ and ‘specialist’ skills. This gives larger councils a distinct advantage over smaller councils, as larger councils have the in-house capacity ‘to accomplish a wider and more complex range of tasks in a more efficient manner’. Indeed, small rural councils in particular have difficulty attracting suitably qualified staff, and these councils do not always make the best use of consultants. However, they also suggested that, as an alternative to amalgamation, small rural councils may be able to utilise shared-services arrangements and ‘pool their resources to acquire the skills in question, at no greater cost than to single and larger councils’.

### **Increased Strategic Capacity**

Recent work by the Australian Centre for Excellence in Local Government (ACELG) has suggested that large amalgamated councils are more able to efficiently deal with other levels of government and regional issues due to increased strategic capacity. Aulich et al. (2011a, p. 4) proposed that ‘in recent years the need or desire to strengthen local government’s strategic capacity to play an expanded and more prominent role has



emerged as a key variable in programs of local government reform'. They defined 'strategic capacity' as local governments being able to take a more 'strategic view of their operations'. They also contended that increased strategic capacity may be linked to councils with larger jurisdictions, and this 'can generate a focus that transcends individual local government boundaries and encourages councils to operate in a broader context – one that is more regional or system-wide – and enables them to relate more effectively to central governments' (Aulich et al. 2011a, p. 10). It is interesting to note that, in relation to structural reform in local government, Aulich et al. (2011a) argued that increased strategic capacity is best achieved through amalgamations rather than through shared services (see Table 4.6 above). This notion of a more regional approach to local government resulting from increased strategic capacity and a larger jurisdictional area requires careful consideration. For example, Aulich et al. (2011a, p. 4) and Swianiewicz (2010, p. 186) have implied that the metropolitan planning and regional development activities of local government could be delivered more effectively from a more regional (or larger) local government area. However, Allan (2003, p. 80) argued that this is, in fact, the role 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'. Allan (2003) took the opposite view, that the value of local government in any system of government is the fact they are small. He claimed that most people believe 'small is beautiful'. 'Residents want *local*, not regional government. Residents also want *micro*solutions, not grand plans' (Allan 2003, p. 74). He stated that local government 'should be about local capture' (p. 80), which is consistent with Kreci and Ymeri's (2012, p. 288) description of that the 'basic role of local government ... [is] to express diverse identities of local communities'.

#### 4.4.2 EMPIRICAL EVIDENCE

Having outlined the common theoretical arguments for structural reform in local government from an economic efficiency viewpoint, the discussion now summarises the empirical evidence for each of these arguments in the literature.

### Economies of Scale

Prior to outlining the empirical evidence for scale economies in local government, it is important to note 'there are almost insurmountable problems in measuring whether larger or smaller local governments are more efficient' (Keating 1995, p. 121). In this regard, Keating's comments highlight the difficulties in measuring the service delivery costs of councils for comparative purposes. For example, the services cost of a small council cannot simply be compared with that of a larger council, as councils do not 'face the same conditions or demands; after all the arguments for having local government is that these differ from place to place'. He also makes a number of general observations regarding the accurate measurement of the production process and outputs. For example, 'if one municipality is spending more than another, this may be because it is inefficient, or because it is producing more' and therefore 'we need measures for both expenditure and outputs ... [and] measuring the output of [local] government is notoriously difficult' (Keating 1995, p. 121).

Dollery, Grant and Kortt (2012, p. 107) explained that the standard approach to measuring scale economies in this context is 'to estimate statistically the relationship between size (usually measured in terms of population) and the average costs of production (usually measured in terms of service expenditure)' in order to 'estimate the long run average cost curve'. In practice, this is a difficult exercise as it requires that each individual council service be identified in order to test the respective production process for scale economies (Byrnes, Dollery and Webber 2002). Byrnes et al. (2002) also argued that this approach has a number of other limitations, as summarised in Table 4.13.

Notwithstanding the difficulties of measurement outlined in Table 4.13, many studies have investigated the issue of scale economies in local government. Turning to the outcomes of this research, Table 4.14 is a summary of 'the findings of some leading authorities in the world' in relation to size and economies of scale in local government (Allan 2003, p. 76).

**Table 4.13 Summary of Limitations in Measuring Scale Economies in Local Government**

<b>Limitation</b>	<b>Description</b>
Accurately valuing inputs to the production process.	Valuing inputs is the most difficult aspect of applying the ‘theory of scale to local governments’ as councils do not separate the cost of ‘labour and capital, or identify the costs associated with overheads’.
Accurately measuring outputs to the production process.	A unit of output may not be homogenous. ‘For instance, building approvals are complicated by the fact that buildings come in many different shapes and sizes, and thus require markedly different lengths of time to inspect’.  Furthermore, production costs may be influenced by the external environment. For example, a council with a large commercial/industrial area may have higher unit cost for building approvals than a council made up largely of residential development.
Measuring scale in local government	Whilst scale in local government typically refers to the population size within a local government’s jurisdiction, other factors may also impact on scale: population density, diversity and seasonal variations in the population.

*Source:* Adapted from Byrnes, Dollery and Webber (2002, pp. 203–205).

**Table 4.14 Leading International Research Findings – Size and Local Government**

<b>Author</b>	<b>Findings</b>
Boyne (1992)	‘Concentrated’ local governments were more likely to have higher expenditure levels than ‘more fragmented local government’ and diseconomies of scale may ‘outweigh the technical benefits’ of larger councils.
Jones (1993)	Larger councils ‘tend to spend more per head’ compared with smaller councils.
Sancton (1996)	By 1991 consolidation of local governments ‘had been thoroughly investigated’ and very little evidence in support of this structural reform option had been found.
Australian Institute of Urban Studies (1999)	Empirical evidence from overseas and associated academic literature demonstrates that there is ‘no single or standard size’ for local government. Furthermore, there is no evidence of economies of scale in the delivery of local government services.

*Source:* Adapted from Allan (2003, p. 76).

From the studies summarised in Table 4.14, Allan (2003, p. 76) argued that ‘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’. Similarly, a review by Byrnes and Dollery (2002b p. 394) of international research from the UK and the United States dating back to the late 1950s revealed that the case for economies of scale in local government is far from conclusive. On the contrary, they observed that:

[O]verall, 29 per cent of the research papers find evidence of U-shaped cost curves, 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.

Byrnes and Dollery (2002b p. 394) concluded from this international research that ‘there is a great deal of uncertainty about whether economies of scale exist in local government service provision’ (Byrnes and Dollery 2002b, pp. 393–394).

More recent research from England continues to provide new insights into economies of scale in local government. For example, Andrews and Boyne (2009, p. 740) conducted a study of councils’ expenditure in England in 2003/04 to ‘examine whether the size of their client population and the structure within which they operate make a difference to expenditure on administrative overheads’. They defined ‘administrative overheads’ as labour and material costs not directly associated with the production process, such as executive management costs. Their study found evidence ‘that administrative efficiency is higher in larger organisations’ which supports the ‘working assumption’ that ‘large councils have lower administration costs than their smaller counterparts’ (Andrews and Boyne 2009, p. 755).

Byrnes and Dollery (2002b) reviewed the limited research – only nine studies – undertaken to date in Australia about economies of scale and size of local government. The findings of each of these studies are summarised in Table 4.15.

**Table 4.15 Australian Research – Economies of Scale in Local Government**

Research Author/s	Research Findings
Abelson (1981)	No evidence of scale economies.
Institute of Public Affairs (1991)	Possibility of scale economies.
KPMG (1998)	Potentially large ‘cost savings’ from wholesale amalgamation.
Local Government Commission (1986)	Economies of scale found in administrative expenditure.
Musgrave et al. (1985)	Limited evidence of ‘economies of size’.
Office of Local Government (1993)	Evidence of economies of scale in metropolitan, provincial and rural shires.
South Australia Department of Local Government (1998)	Scale economies found in the following areas of expenditure: administrative overhead; drainage; road and grants and subsidies received.
Soul (2000)	Evidence of economies and diseconomies of scale.
Victoria Grants Commission (1985)	Economies of scale found in all functions.

*Source:* Adapted from Byrnes and Dollery (2002b, pp. 413–414).

Table 4.15 shows that the findings of Australian studies into economies of scale and local government size are mixed. Some studies found no or limited evidence of economies of scale, others found potential for, or possibility of, economies of scale,

whilst still other studies found evidence of economies of scale in the delivery of only some local government services. One study (Soul 2000) found both economies and diseconomies of scale. Notwithstanding these findings, Byrnes, Dollery and Webber (2002) and Byrnes and Dollery (2002b) highlighted various issues with the research methodologies used and with the question of investigating economies of scale in local government itself 'given the structural characteristics of this sector' (Byrnes and Dollery 2002b, p. 404). Ultimately, Byrnes and Dollery (2002b, p.404) concluded that there was a 'lack of rigorous evidence of significant economies of scale in municipal service provision' and that the 'research on economies of scale in local government does not support the proposition' [that substantial efficiency gains would flow from the formation of larger authorities].

Notwithstanding this conclusion, some of the abovementioned research has been used to advance the argument for amalgamation based on scale economies. For example, from the list of studies in Table 4.15, Allan (2003, p. 76) described Soul (2000) as 'the favourite academic of the amalgamation movement in Australia'. His findings were that 'increasing population yields a lower level of gross expenditure per capita up to a council size somewhere between 100 000 and 316 000 people'.

It is interesting to note that Byrnes and Dollery (2002b p. 404) contended that 'a correctly specified study of economies of scale in local government service provision has not been undertaken in Australia'. Since that time, four further empirical studies of note have been conducted in Australia on economies of scale in local government. First, Byrnes, Dollery and Webber (2002, p. 202) investigated 'waste collection in NSW councils for the financial years 1995/96 to 1999/2000'. This research had three objectives. The initial aim was to determine if there was a statistical relationship 'between the long-run average cost of collecting domestic waste and the number of bins collected'. Second, if there was a relationship, the researchers aimed to determine if this was evidence of scale economies, scale diseconomies, or both. Finally, if scale economies were present, the final objective was to test for differences between urban and rural councils (Byrnes et al. 2002, p. 205). The key finding of this study was that 'there is some evidence of economies and diseconomies of scale in municipal domestic waste collection, with respect to the number of bins collected ... both rural and regional and metropolitan council enjoy economies of scale' (Byrnes et al. 2002, p. 215).

The second study, by Dollery, Byrnes and Allan (2006), represented an alternative research method to that used in the studies discussed above. Dollery et al. (2006) outlined the process and findings of a survey conducted by Byrnes (2005) of senior council officers in New South Wales, and contended that this survey ‘... represent[ed] the first empirical effort in Australia at systematically determining whether functions should be tackled regionally or locally by constellations of councils’. In this survey, general managers from 28 New South Wales councils were asked their opinion ‘on the organizational structure best suited to the management and delivery of a wide range of council services’ (Dollery et al. 2006, p. 13). The survey identified three distinct elements of managing and delivering council services: ‘policy determination, the management aspect of a given service area, and the actual delivery of the service’ (Dollery et al. 2006, p. 13).

For the purposes of this survey, council services were categorised into nine types (listed below), with each category containing a subset of council services. For example, the Administration category included the local government services of Corporate Support, Plant Operating Expenditure and Engineering and Works. These categories were derived from the NSW Department of Local Government’s (2005) *Local Government Code of Accounting Practice and Financial Reporting Code Update No 13*, Special Schedule No. 1. The nine categories were:

- Administration
- Public order and safety
- Health
- Community services and education
- Housing and community amenities
- Recreation and culture
- Water and wastewater
- Transport and communication
- Economic affairs.

The respondents could select from the eight organizational structure types listed in Table 4.16.

**Table 4.16      Organisational Structure Types in Survey by Byrnes (2005)**

Option	Description
1	<ul style="list-style-type: none"><li>• Local policy determination</li><li>• Local management</li><li>• Local delivery</li></ul>
2	<ul style="list-style-type: none"><li>• Local policy determination</li><li>• Local management</li><li>• Regional delivery</li></ul>
3	<ul style="list-style-type: none"><li>• Local policy determination</li><li>• Regional management</li><li>• Local delivery</li></ul>
4	<ul style="list-style-type: none"><li>• Local policy determination</li><li>• Regional management</li><li>• Regional delivery</li></ul>
5	<ul style="list-style-type: none"><li>• Regional policy determination</li><li>• Local management</li><li>• Regional delivery</li></ul>
6	<ul style="list-style-type: none"><li>• Regional policy determination</li><li>• Local management</li><li>• Local delivery</li></ul>
7	<ul style="list-style-type: none"><li>• Regional policy determination</li><li>• Regional management</li><li>• Local delivery</li></ul>
8	<ul style="list-style-type: none"><li>• Regional policy determination</li><li>• Regional management</li><li>• Regional delivery</li></ul>

*Source:* Dollery, Byrnes and Allan (2006, p.15).

Table 4.16 shows that each organisational structure type used in the survey represented a different combination of ‘local’ and ‘regional’ approaches to managing and delivering local government services. Whilst it was acknowledged that the sample size for the survey was small and there were a number of survey design issues to be considered when interpreting the results, the key findings of this research were that cost characteristics varied between the council services and that there was not one organisational structure that suited all council services, in that ‘while regional arrangements were preferred for some functions, other services were designated as best locally handled’ (Dollery, Byrnes and Allan 2006, p. 20). The authors went on to argue from the results of this survey that economies of scale in the delivery of some council services are best achieved through ‘co-operative arrangements between spatially adjacent councils [or shared services]’ and that ‘local councils [be] retained for the provision of all other services’ (Dollery et al. 2006, p. 22).

What empirical evidence exists in relation to shared services in local government?

Dollery, Grant and Kortt (2012) conducted an extensive review of the studies concerned

with this topic, noting ‘a dearth of empirical evidence on the economic effects of shared service arrangements in Australian local government’; however, there is ‘a steadily growing body of international evidence on shared services’ (Dollery et al. 2012, p. 144). They drew a number of conclusions from this body of research:

1. Shared-services arrangements can improve the efficiency of local service delivery.
  2. Some services appear to be more amenable to shared-services arrangements than others.
  3. Common areas of success include information technology, human resource, procurement and waste management.
  4. For even promising services [services likely to be successful as a shared service], the degree of success varies from case to case.
  5. Identifiable barriers to the successful implementation of shared-services agreement are difficult to resolve.
  6. Common barriers to the establishment of shared-services agreement include the loss of ‘local identity’ and control, conflicting objectives, uncertain benefits, and increasingly complicated administrative and management processes.
- (Dollery, Grant and Kortt 2012, p. 152)

Therefore, it can be argued that shared services is worthy of further empirical investigation as an alternative to amalgamation in an effort to achieve economies of scale in local government.

The third study, by Drew, Kortt and Dollery (2013), represents a critical appraisal of the Deloitte Access Economics [DAE] final report on local government structural reform in Tasmania. Drew, et al (2013, p. 58) identified the ‘centrepiece’ of this final report as being the econometric analysis. This analysis concluded that ‘as the population of a local government areas increases by 1%, per capita operating expenses fall by 0.31%’ (Deloitte Access Economics 2011, p. 24).

Whilst it would appear that this analysis provided evidence in support of economies of scale in Australian local government, ‘in re-considering the DAE econometric approach ... Contrary to the results reported by DAE (2011), our findings for the presence of economies of scale in the Tasmanian milieu are mixed and inconclusive’ (Drew et al 2013, pp. 60-62).

From this critical appraisal, Drew et al (2013, p. 63) concluded that ‘given the flaws in its empirical computations’, the Deloitte Access Economics final report and ‘the evidence it has generated should thus be treated with scepticism’. Interestingly, Drew et al (2013, p. 63) also use this study to highlight a ‘bias’ in empirical research undertaken by



‘commercial consultants’. They described a ‘broader malaise in contemporary public policy formulation in Australia and other liberal democracies which derives from increasing reliance on reports and other policy documents prepared by commercial consultants’ (Drew et al 2013, p. 63). In such circumstances, Drew et al (2013, p. 63) warned that policy makers should be cautious as these consultants ‘have strong pecuniary imperatives to ‘shape’ empirical results to please their paymasters’.

The fourth study, also by Drew, Kortt and Dollery (2013a), used econometric analysis to examine the forced amalgamations in Queensland for evidence of scale economies using data collected by the state government on local government expenditure and population in 2006/07 (pre-amalgamation) and 2009/10 (post-amalgamation).

Drew et al (2013a, p. 16) found that pre-amalgamation, ‘evidence of economies of scale was found for populations up to 98,000 and diseconomies of scale beyond this point’ and ‘Eight percent of councils in 2006/07 (ten councils-representing 64% of the state’s population exhibited diseconomies of scale’ (Drew et al 2013a, p.1). Conversely, using the post-amalgamation data, Drew et al (2013a, p.1) observed that diseconomies of scale were found from a population of 99,000 and beyond. Furthermore, ‘25% of all councils (thirteen councils) were now found to exhibit diseconomies of scale [which] increased the proportion of Queensland residents in councils operating with diseconomies of scale to 84%’ (Drew et al 2013a, p.1).

A salient feature of the Drew et al (2013a, p. 14) study was that it was also able to empirically demonstrate that ‘for both pre-and-post amalgamation periods there is no evidence of scale economies for either ‘roads’ or ‘domestic waste’’. Conversely, the study also demonstrated ‘that councils’ expenditure on ‘parks’ in the pre-and-post amalgamation periods exhibited strong economies of scale’ (2013a, p. 15). However, the authors also highlighted the fact that expenditure on ‘roads’ represents 85% of councils’ ‘on-going expenditure’ compared with 5% for parks (Drew et al 2013, pp.14-15). A key conclusion from this study, as discussed earlier in this thesis, was that alternative models of local government service delivery such as shared services should be considered as a way of achieving economies of scale for those services where it is empirically shown that scale economies exist (Drew et al 2013, p. 15).

### Other Factors

In addition to economies of scale, the potential benefits of structural reform in local government include economies of density, economies of scope and increased strategic capacity. The empirical evidence for these other commonly cited benefits of structural reform is summarised below.

### **Economies of Density**

Table 4.17 summarises the empirical research undertaken in relation to economies of densities. The table shows some evidence of economies of density in the provision of local government services. Of particular interest to the Australian local government context is the study by Holcombe and Williams (2009). Dollery, Grant and Kortt (2012, p. 126) argued that the findings from this study ‘indicate that future research that examines the relationship between municipal expenditure and population in the Australian local government context needs to assess and potentially account for the potential influence of population densities’.

**Table 4.17 Empirical Research – Economies of Density**

<b>Council Service</b>	<b>Research Findings</b>
Regional bus transportation sector	Cambinit and Filippinni (2003): evidence of economies of density.
Urban water supply	Fabbri and Fraquelli (2000) and Nauges and van den Berg (2008): evidence of economies of density.
Solid waste collection	<ul style="list-style-type: none"><li>• Callan and Thomas (2001): evidence of economies of density.</li><li>• Bel and Coastas (2006): Returns to density remained constant.</li><li>• Ohlsson (2003): evidence of diseconomies of density.</li></ul>
Higher population densities and council expenditure	<ul style="list-style-type: none"><li>• Ladd (1992) observed that, in the United States, higher population densities resulted in higher county government expenditures in sparsely populated regions.</li><li>• Holcombe and Williams (2009) analysed their findings of diseconomies of scale in council expenditure further by grouping cities by population density. The result of this analysis was that the diseconomies of scale could no longer be found.</li></ul>

*Source:* Adapted from Dollery, Grant and Kortt (2012, pp. 125–126).

More recently, Drew, Kortt and Dollery (2013b) conducted a study into the expenditure of 152 New South Wales councils. The purpose of this study was to ‘contribute to the literature by disentangling the relationship between population size and density for different types of local government services in the Australian state jurisdiction of NSW’ (Drew et al 2013b, p. 7). The key finding from this study in relation to economies of

density was that ‘amalgamation of councils with low population densities into larger entities is unlikely to result in enhanced efficiency and cost savings.

### **Economies of Scope**

Table 4.18 summarises the empirical research undertaken in relation to economies of scope.

**Table 4.18 Empirical Research – Economies of Scope**

<b>Economies of Scope Type</b>	<b>Research Findings</b>
Diminishing returns to inputs	No empirical research found.
Jointness in inputs	Grosskopf, Margaritis and Valdmanis (1995) found this type of economies of scope in the United States health care services: acute care, intensive care, outpatient surgeries and emergency room visits.
Jointness in outputs	This type of economies of scope was found by Wolff (2004) in river basin management activities in the United States.
Interactions between production processes	Wolff (2004) cited examples of interactions between production processes whereby local governments are improving aquatic ecosystems as part of stormwater management activities which, in turn, is attracting tourists.

*Source:* Adapted from Dollery, Grant and Kortt (2012, pp. 127–132).

Table 4.18 shows that empirical research in relation to economies of scope in the delivery of local government services is limited. Two arguments outlined above, sometimes used in support of local government amalgamations and closely related to the concept of economies of scope, are lower administration and compliance costs and greater administratively capacity. Significantly, no empirical work has been done on these theoretical propositions in Australia.

## **Increased Strategic Capacity**

As mentioned earlier, Aulich et al. (2011a, p.10) concluded that ‘enhanced strategic capacity appears essential to local government’s long term success as a valued partner in the system of government, and this emerged as probably the most important issue for councils to consider in examining different modes of consolidation [structural reform]’. This study comprised three components (Aulich et al. 2011a, p. 5): ‘desk analysis of the literature, a series of case studies [and] eight interviews with senior practitioners from the local government sector’. The findings in relation to strategic capacity and amalgamation are important to note (Aulich et al. 2011a, p. 10):

several of those interviewed for this research argued strongly that amalgamation is the best route to strategic capacity. It would appear that larger (and fewer) amalgamated councils are more likely to be engaged as partners with state or national governments in regional planning or governance arrangements, and to be able to exert real influence.

Aulich et al. (p.10) went on to argue that their study provided evidence that strategic capacity ‘may be strongly linked to larger units of local government’ and ‘that amalgamation should not be ruled out as an option simply because other forms of consolidation can yield economies of scale or scope, or because amalgamations have not been shown to generate significant cost savings or rate reductions’.

However, the credibility of this study has been questioned by Dollery, Grant and Kortt (2012, p. 29) who described it a ‘research lite’ by arguing that ‘quite apart from fallaciously conflating amalgamation with regional collaboration, its six co-authors manage to provide a badly deficient literature survey of municipal mergers, as well as perusal of 17 ‘case studies’ largely unencumbered with any citations and with no explanation of the basis on which they had been selected’ (Dollery et al. 2012, p. 29).

## **4.5 LOCAL GOVERNMENT SIZE AND LOCAL DEMOCRACY**

Having considered all the main theoretical arguments and the associated evidence relating to size and the efficient operation of local government, the second key question to be considered is: What is the relationship between the size of local government and the effectiveness of local government? This question receives less attention in the literature than questions of efficiency and local government size. However, as the following discussion demonstrates, efficiency and effectiveness in local government are

equally worthy of consideration in the discourse of structural reform in local government.

#### 4.5.1 THEORETICAL PERSPECTIVES

In addition to constituting theories about economic efficiency, Oates's (1972) decentralisation theorem and the Tiebout (1956) model are also relevant to (arguably) the most common conceptualisation of local government effectiveness, namely service delivery that is responsive to local preferences. In practical terms, an effective municipality is one which has a high level of resident satisfaction not only because it delivers services efficiently, but also because it delivers the right mix and level of services to the community. Hirschman's (1970) concepts of 'exit' and 'voice' can assist in understanding this further. Dollery, Crase and Johnson (2006, p. 55) referred to 'exit' as the 'capacity of citizens to choose between alternative producers of some specified service', whilst 'voice' refers to the ability of citizens to express their preferences for a different mix or quality of public services through various administrative mechanisms such as voting, complaints to public service managers and customer surveys, without leaving their municipal jurisdictions'. Using the Tiebout (1956) model, citizens can exit one council area and relocate to another because of the mix or quality of services provided. For example, a citizen may move into a local government area that provides a higher level of public transport service because that type of service is important to them. Oates's (1972) decentralisation theorem is at work when a council alters its service levels to suit the local preferences of people already living within the municipality based upon feedback from customer satisfaction surveys. Community feedback might suggest that improved park facilities and maintenance are strong local preferences, therefore the municipality changes its mix and quality of services to accommodate this preference by spending less in one service area so that more can be spent on high-quality parks.

It is important to note that there are practical limitations to these theoretical concepts of 'exit' and 'voice'. For example, 'imperfect information available to consumers may mean that they are unaware that they are currently receiving relatively unattractive service provision, and thus induce them to underestimate the benefits of exit' (Dollery, Crase and Johnson 2006, pp. 56–57). Furthermore, the quality of a community voice

may be influenced by socioeconomic status, ‘with more educated, affluent groups more likely to express voice than their poorer, less educated counterparts’ (Dollery et al. 2006, p. 56). Ultimately, similar to the efficiency arguments above, these theories demonstrate the value of jurisdictional units that are small enough to be responsive to local preferences in terms of the mix and level of services provided, in addition to how efficiently they are delivered.

Public choice theory can also be applied to the concept of effectiveness in local government. Boyne (1996, p. 811) contended that ‘public choice criticisms of large public sector organisations are that they are monopolistic, inefficient, driven by the self-interest of bureaucrats and unresponsive to the needs of customers or the demands of political sponsors’. Downs (1967, p. 160) also highlighted the effectiveness argument in public choice theory as it relates to government size, as well as responsiveness to changing local preferences, by stating:

The increasing size of the bureau leads to a gradual ossification of operations ... the bureau becomes a gigantic machine that slowly and inflexibly grinds along in the direction in which it was initially aimed. It still produced outputs, perhaps in truly impressive quantity and quality. But the speed and flexibility of its operations steadily diminish.

Therefore, it can be argued using public choice theory that the competition and improved accountability associated with smaller jurisdictional units not only produces more efficient service delivery, but that it also contributes to the improved overall performance of a local municipality. Overall performance in this context is best described by Boyne’s (1996) performance typology, summarised in Table 4.19.

**Table 4.19 Boyne’s (1996) Performance Typology**

<b>Performance Aspects</b>	<b>Description</b>
Service coverage	Is the council service well utilised by the target group?
Service quality	Does the council service meet defined standards or customer expectations?
Service speed	Does a resident receive the council service within an acceptable timeframe?
Service efficiency	The cost of the service per unit of output.
Administrative effectiveness	How well a council administers the service.

*Source:* Boyne (1996, pp. 814–815).

Table 4.19 highlights that efficiency is only one of a number of factors that can be used to measure the performance of a council in delivering services and that considering

efficiency alone, at the expense of these other factors, excludes important information about the effectiveness of a council's operation.

Keating (1995) took a more applied approach by identifying concepts commonly used to understand effectiveness in local government and their relationship to the amalgamation or 'consolidation' of councils into larger jurisdictional units. He contended that the effectiveness of a local government can be understood using the concept of local democracy, that is, 'what structures can best secure citizen control over government and proper accountability' (Keating 1995, p. 117). Table 4.20 summarises Keating's (1995) elements of an effective local government and the impact of amalgamation on each of these elements.

**Table 4.20 Elements of Democracy and Amalgamation**

Elements of Effectiveness	Description	Impact of Amalgamation
Power and control	<ul style="list-style-type: none"> <li>• Powers of local governments</li> <li>• Functional competence</li> <li>• Autonomy and control over policy</li> </ul>	Larger local governments are seen to be more democratic since they can be given more powers and have greater functional capacity which means that local communities have greater control over policy.
Representation	<ul style="list-style-type: none"> <li>• The 'calibre' of people attracted to the role of a councillor.</li> <li>• Quality of local representation</li> </ul>	Larger councils attract more suitably qualified people given the more strategic focus of a larger organisation however elected officials are more removed from their constituents.
Participation	<ul style="list-style-type: none"> <li>• Participative democracy</li> </ul>	Larger councils do not promote active participation.

*Source:* Adapted from Keating (1995, p. 117-132).

It can be argued that the power and control elements of local government effectiveness as described by Keating (1995) (Table 4.20) have limited relevance in the Australian context. The devolution of powers to local government in Australia has occurred regardless of the size and functional capacity of councils. Furthermore, in many cases the control over the policies and objectives of services devolved to local government has been retained by the state (Dollery, Crase and Johnson 2006, p. 28).

However, the impact of local government size on representation and participation is relevant to the Australian context. These elements were considered by Mouritzen (1989), who presented two theories that lead to opposing predictions about the impact of local government size on citizen satisfaction. The first theory discussed is Reform Theory, which argues in favour of larger jurisdictional units and claims that 'larger units

are able to do more; therefore citizens are able to control more (and more aspects of the environment)' (Mouritzen 1989, p. 662). Reform Theory is outlined below using a series of propositions that include both effectiveness and efficiency dimensions of citizen satisfaction for completeness.

*Proposition 1:* The larger the local political system, the more satisfied with policies the citizens will tend to be.

This is so because:

*Proposition 2a:* The larger the local political system, the more heterogeneous the population.

*Proposition 2b:* The more heterogeneous the population, the more likely it is that minority preferences will be taken into account in deciding on policies and the more satisfied minorities will tend to be.

*Proposition 3a:* The larger the local political system, the better the opportunities for citizens to participate in important decisions.

*Proposition 3b:* The better the opportunities for citizens to participate in important decisions, the more satisfied they tend to be with public policy.

*Proposition 4a:* The larger the local political system, the more efficient the production of services, i.e. the more citizens will get in relation to what they pay.

*Proposition 4b:* The more citizens get in relation to what they pay, the more satisfied they will be with public policy.

(Mouritzen 1989, pp. 662–663)

Mouritzen also stated that the broader scope and jurisdictional heterogeneity found in larger jurisdictional units act as incentives for people to organise into collective groups, such as political parties and interest groups, and to become more involved in local democratic processes.

Mouritzen (1989, pp. 663–664) then used Political Economy Theory to describe the merits of smaller jurisdictional units in terms of responsiveness. The propositions of Political Economy Theory are outlined below. As with the preceding discussion of Reform Theory, effectiveness and efficiency propositions are included.

*Proposition 1:* The smaller the local political system, the more satisfied with policies citizens will tend to be.

This is because:

*Proposition 2a:* The smaller the local political system, the more homogeneous the population.

*Proposition 2b:* The more homogeneous the population, the more likely it is that policies will be in accordance with the preferences of the population.

*Proposition 3a:* The smaller the local political system, the better the opportunities for citizens to participate in decisions.

*Proposition 3b:* The better the opportunities for citizens to participate in decisions, the more satisfied they tend to be with public policy.

*Proposition 4a:* The smaller the local political system, the more efficient the provision of services.

(Mouritzen 1989, pp. 664–665)



This view is shared by Reese (2004, p. 604), who observed that in the local government consolidation literature it is generally argued ‘that larger governments will be less responsive to the individual needs of citizens’.

#### 4.5.2 EMPIRICAL EVIDENCE

Drew (2013, pp. 4–6) argued that ‘only two studies appear to have specifically addressed the issue of population size and local government effectiveness’ – those by Boyne (1996) and Mouritzen (1989) – and both of these studies used citizen satisfaction as a proxy for local government effectiveness. Boyne (1996) used various indicators for each element of his performance typology, summarised in Table 4.19, and relevant local government data from the Audit Commission in England. His overall finding suggested that ‘there is limited evidence ... that the disaggregation of a large organization into smaller units will lead to better performance’ (Boyne 1996, p. 824). Mouritzen (1989) tested the validity of both Reform Theory and Political Economy Theory on 1,020 residents selected randomly from 96 Danish municipalities, using survey and census data. The findings from this empirical research supported the Political Economy Theory. Mouritzen (1989, p. 679) stated that ‘citizens are generally more satisfied with urban services in smaller communities, and that this is because democracy and participation – in the eyes of citizens – have better conditions in the smaller communities and because smaller communities are generally more homogenous than larger ones’. More recently, Drew (2013, p. 3), in the only Australian study of this kind, used community satisfaction data for council services from the Department of Planning and Community Development in Victoria ‘to establish whether there is a statistically significant association between the population parameters (population size and density) and citizen satisfaction’. Drew’s (2013, p. 17) findings were ‘broadly consistent with international findings’ and are summarised as follows. First, ‘population may have a negative influence on satisfaction in both smaller and larger metropolitan council areas (Drew 2013, p. 11). Second, using citizen satisfaction data from the Detatite de-amalgamation in Victoria ‘clearly demonstrates that, *ceteris paribus*, citizens were persistently more satisfied in the resultant smaller municipalities’ (Drew 2013, p. 15). Finally, in relation to non-metropolitan councils, no empirical data demonstrated a relationship with ‘between population size, population density and resident satisfaction’ (Drew 2013, p. 16).

#### **4.6 CONCLUDING REMARKS**

Structural reform in local government, particularly municipal consolidation or amalgamation, has been the subject of considerable theoretical and empirical investigation from the viewpoint of efficiency in service delivery. At the broadest level, theories of fiscal federalism demonstrate the economic value of sub-national or local governments. However, at the local government level, the relationship between the size of a municipality and its efficient operation is difficult to define with precision. Considerable work done at a theoretical level holds that larger councils benefit from economies of scale, economies of density, economies of scope and increased strategic capacity. However, available empirical evidence does not yield conclusive results that this is the case. In fact, when the theoretical and empirical arguments are considered together, other structural reform options, such as shared services, may represent a more robust structural reform model. This chapter has served to underline the lack of work done on understanding the relationship between municipal size and municipal effectiveness. Whilst it can be generally argued that smaller local government jurisdictions promote higher levels of citizen satisfaction, the empirical evidence is limited on this question. We are thus obliged to conclude that it is difficult for a conceptually convincing evidence-based argument to be mounted in support of amalgamation as a preferred structural reform option for local government.



## **5. PRELUDE TO CONTEMPORARY LOCAL GOVERNMENT REFORM IN QUEENSLAND: SIZE, SHAPE AND SUSTAINABILITY (SSS)**

### **5.1 INTRODUCTION**

Chapter 3 detailed several local government reform programs throughout Australia at both national and state levels. Chapter 4 presented a literature review on the theoretical perspectives and empirical evidence relating to structural reform of local government, with a focus on amalgamations. It identified the most common reasons used to support amalgamations, including economies of scale, economies of density, economies of scope and increased strategic capacity. That chapter also considered the impact of jurisdictional size on local government effectiveness, using measures such as responsiveness, participation and citizen satisfaction.

Chapter 5 now narrows the focus to Queensland, demonstrating how contemporary local government reform in that state began with a focus on local government sustainability. However, this reform quickly evolved into a program of forced amalgamations due to a policy reversal by the Queensland Government.

In Queensland, interest in local government sustainability began in earnest with the release of the discussion paper *Size, Shape and Sustainability (SSS) of Queensland Local Government* in March 2005 by the LGAQ. This discussion paper and the subsequent SSS initiative represented an historic attempt by the Queensland local government sector to be proactive in addressing issues associated with local government sustainability. In doing so the sector would potentially avoid state-imposed structural reform processes, such as involuntary amalgamations. This chapter examines in detail the rise and demise of the SSS initiative in order to make way for forced amalgamations across the state.

The chapter is divided into six main parts. Section 5.2 examines the policy context, rationale and content of the LGAQ's (2005) discussion paper. Section 5.3 describes in detail the proposed SSS process and partial implementation. Section 5.4 discusses the demise of the SSS initiative by critically evaluating the SSS initiative. The chapter ends with some brief concluding remarks in Section 5.5.

## 5.2 POLICY CONTEXT AND RATIONALE FOR SSS INITIATIVE

As the peak body representing the Queensland local government sector, in 2004 the LGAQ ‘resolved to consider the pressures confronting councils in Queensland and to explore the need for local government reform to ensure the long-run viability of local councils’ (Dollery and Dallinger 2007, p. 64). As outlined in the LGAQ’s (2005) ‘Discussion Paper’, the LGAQ took this proactive approach to local government reform because it feared that state-imposed structural reform of local government was a real possibility in Queensland. The LGAQ stated that ‘the [LGAQ] Executive believed that it is important that Local Government itself should show leadership in management of these sensitive issues [shared services, regional cooperation and voluntary boundary changes] rather than having the State Government unilaterally determining them, as has occurred in other States’ (LGAQ 2005, p. 7). The LGAQ (2005) cited the following as evidence that state-imposed local government reform may be imminent:

- Statements from the Beattie state government at the time that ‘its commitment to no forced amalgamations now being only for this current term of office’ (LGAQ 2005, p. 7).
- Structural reform of local government sectors in Victoria, South Australia and Tasmania during the 1980s and 1990s, resulting in 200 councils being abolished.
- Local government reform processes gaining momentum in New South Wales, Western Australia and the Northern Territory.
- The 2004 Productivity Commission Report on Competition stating that ‘in parts of Australia, further council amalgamations and/or shared service provision arrangements would allow for a greater realisation of economies of scale and lead to considerable cost savings’ (Productivity Commission 2004, p. 266).
- The Department of Transport and Regional Services (DOTARS) submission to the Hawker Inquiry outlining various apparent benefits of amalgamation, in that this reform option delivers ‘larger councils [that] have a more secure and adequate financial base, are better able to plan and contribute to economic development, are more effective community advocates, and interact more effectively with government and business.’ The submission also stated that ‘Structural reform can deliver economies of scale and can enable Councils to employ a wider range of

professionals, so they can offer a wider range and usually higher quality of services' (LGAQ 2005, p. 8).

- The Hawker Report finding that '... in some circumstances amalgamations of local government bodies is the most direct way of achieving a more efficient and cost effective local government sector ... [and] the Committee considers [that] it would be useful to adjust FAGs, whereby if it can be shown by the CGC and LGGCs that efficiencies could be gained by amalgamations or regional cooperation, then a proportion of FAGs may be withheld from those councils which resist appropriate structural reform' (LGAQ 2005, p. 8).

The LGAQ was also of the view that Queensland councils were willing to formally discuss local government reform, given that the following matters were raised by member councils at state Local Government Managers Association (LGMA) and LGAQ conferences at the time:

- Amalgamation or at least some form of substantial resource sharing was necessary to be sustainable in the longer term;
  - Boundaries needed to be reconsidered as many had been in place since the coach days and reflected coach routes;
  - A fear of amalgamation, particularly concern over the loss of a sense of place, and a predominantly negative attitude to its consideration;
  - Where Councils had joint interests (e.g. in 'doughnut' situations) they should work together proactively in transition to eventual amalgamation;
  - Concern about the potential reduction in grants following amalgamation;
  - Local Governments had to be prepared to take action themselves on structural reform rather than waiting for action to be taken for them.
- (LGAQ 2005, pp. 7–8)

It is important to identify the key elements of the LGAQ's proactive approach to local government reform since they also constituted the conceptual foundations of the SSS initiative. First and foremost, the LGAQ rejected involuntary amalgamation as a structural reform option. The LGAQ's policy position on boundary change stated that 'an amalgamation of one Local Government with another or major boundary change shall not take place if the majority of electors in either council is opposed to such amalgamation or major boundary change' (LGAQ 2005, p. 9). However, the LGAQ went on to state that councils should consider structural reform options that 'enhance efficiency and effectiveness at the local level' (LGAQ 2005, p. 9). According to the LGAQ, the scope of the term 'structural reform' was to include 'the size and geographic dimensions of a local government area; management, organisation and operational

arrangements; financial and accountability arrangements; and service delivery mechanisms including contracting out, joint arrangements or enterprises and resource sharing' (LGAQ 2005, p. 9).

Second, the LGAQ also identified 'drivers for change', which can be classified as either an external or internal determinant of local government sustainability (Dollery, Byrnes and Crase 2008) and have been well documented in recent Australian local government reform programs. They have been considered in detail in chapters 3 and 4. Some of the key comments in the LGAQ discussion paper on these 'drivers for change' are summarised in Table 5.1.

**Table 5.1 Drivers for Change: Voluntary Local Government Structural Reform in Queensland**

<b>Drivers for Change</b>	<b>LGAQ Description</b>
Community expectations	Community expectations of councils are that they 'expand the range and quality of services provided'. Community attitude surveys conducted by the LGAQ every two years since 1995 show a 'gradual decline' in Queensland councils' 'overall performance relative to community expectations'.
Legislative and functional change	New legislation and devolution of responsibilities have significantly increased the amount of regulatory and administrative tasks undertaken by local government. For example, using data from member surveys in 2002, the LGAQ estimated that these tasks 'had resulted in a net cost to Queensland councils of \$25 million per annum, with a requirement for over 350 additional staff'.
Financial Assistance Grants	A large number of councils in Queensland have seen their financial assistance grant reduced from a 2002 review of the grant methodology by the Queensland Local Government Grants Commission: 'Many of these Councils have a relatively high dependence on grants to supplement their local revenue base'. For example, 'in 2002/03, there were 65 mainstream Councils in the State with an [own source] revenue ratio less than 50% and more than 30 Councils had an [own source] revenue ratio less than 25%'. For these councils, a reduction in grant funding may significantly affect their ongoing financial sustainability.
Infrastructure sustainability	Keeping up with the maintenance, replacement and upgrade of infrastructure in line with community expectations 'is a significant issue for many Councils across the State'.
Demographic change	Councils are facing significant and varied demographic changes throughout Queensland. For example, South East Queensland and other areas along the coast are experiencing rapid population growth; however, 'the western areas of the State are likely to see either a static population or even a decline in population of the next 20years'.

*Source:* Adapted from LGAQ (2005, pp. 10–13).

Table 5.1 provides some interesting contextual information about the Queensland local government sector which ultimately informed the development of the SSS initiative.

Finally, the LGAQ (2005) presented a number of '[voluntary structural reform] options for consideration'. They argued in their discussion paper that Queensland councils should consider these options in response to the abovementioned 'drivers for change'. These voluntary structural reform options were to be considered as part of the SSS initiative and are summarised in Table 5.2.

**Table 5.2 Options for Consideration – Voluntary Local Government Structural Reform in Queensland**

<b>Structural Reform Options</b>	<b>Description</b>
Resource sharing through service agreements	A group of councils determine to 'allocate functions' to each of the member councils. Under this arrangement, each council would deliver a function/s for the group of councils. Such an approach could also be described as 'outsourcing service provision to another Council'.
Resource sharing through joint enterprise	A group of councils create a 'joint business unit to achieve economies of scale' in the delivery of a council service.
Merger/amalgamation	'Where Councils join together voluntarily'.
Significant Boundary Change	'Which may also include joint arrangements'.

*Source:* Adapted from LGAQ (2005, p. 15).

In presenting these voluntary structural reform options, as listed in Table 5.2, the LGAQ provided a detailed description of each option, including a list of advantages and disadvantages and case studies of councils where each of the reform options had been implemented.

### **5.3 PROPOSED SSS PROCESS AND PARTIAL IMPLEMENTATION**

The SSS initiative objectives were similar to other state-based inquiries in that they focussed on local government sustainability. However, the proposed SSS project methodology was unique and has been described as 'the best example of voluntary cooperation between state authorities and local councils in the history of Australian local government reform' (Dollery, Wallis and Crase 2007, p. 1).

In order to participate in the SSS initiative, councils voluntarily partnered with neighbouring councils to form a 'Review Group of Councils'. Independent Review Facilitators (IRFs) were appointed to each of these groups to assist participating councils work through the SSS process. Within these Review Groups, councils were required to assess their current and future sustainability using pre-determined



sustainability indicators and then determine what ‘options for change’ were required as per Table 5.2.

This process was comprehensively outlined in the LGAQ’s (2006) *Size Shape and Sustainability (SSS) Kit* [SSS Kit]. The SSS Kit was described as ‘a step by step guide to assist Council’s focus on and evaluate their long term sustainability’ (LGAQ 2006, chapter 1, p. 5). The SSS Kit consisted of nine chapters. The following discussion provides a commentary on chapters 2 (Review Framework), 3 (Sustainability Indicators), 4 (Options for Change) and 5 (Independent Review Facilitators).

Chapter 2 of the SSS Kit provided detailed information on each phase of the SSS Review Framework, including indicative timeframes, as summarised in Table 5.3.

**Table 5.3 Summary of SSS Initiative Phases**

Phases		Description	Indicative Time Frame
Preliminary Review Phase		Councils consider their involvement in SSS Review and identify possible partners.	Three months (by June 2006)
Initial Review Phase	Step 1	Undertake sustainability assessment and initiate community engagement.	Two months
	Step 2	Confirm the key issues, all options for change and SSS Review partners.	Two months
Comprehensive Review Phase	Step 3	Undertake information gathering, research and analysis on all options for change.	Four months
	Step 4	Seek community response	Two months
	Step 5	Consider final report and determine implementation strategies.	One month
Review Implementation Phase		Implement identified strategies.	No timeframe suggested

Source: LGAQ (2006, Chapter 2, pp. 1–16).

The following key observations can be made about the SSS Review Framework summarised in Table 5.3. First, the framework included a clearly described and well-considered project methodology. The SSS Kit provided background information, key outcomes, major tasks, and a timeframe for each phase and stage of the process. Using Chapter 2 of the SSS Kit as a guide, the ‘Review Group of Councils’, with the assistance of their IRF, would have been able to track their progress through the SSS Review Framework and remain focussed on achieving the desired outcomes. However, closer examination of the tasks to be achieved in each phase and stage of the process raises questions about how realistic the project timeframes were for the SSS initiative.

For example, Table 5.4 outlines the major tasks of the Initial Review Phase to be completed within four months.

**Table 5.4 Summary of Major Tasks: Initial Review Phase**

<b>Initial Review Phase Step</b>	<b>Description</b>	<b>Major Tasks</b>
Step 1	Undertake sustainability assessment and initiate community engagement	<ul style="list-style-type: none"> <li>• IRF liaise with QTC [Queensland Treasury Corporation] to ensure Financial Sustainability Reviews for members of the Review Group are progressing and/or are complete.</li> <li>• Review Group of Councils identify any other indicators that reflect the local issues of the Review Group.</li> <li>• Individual Councils evaluate current and future sustainability against all categories of sustainability indicators.</li> <li>• Individual Councils and Review Group of Councils identify the key issues (vulnerabilities, opportunities and strengths) for each member and consider how these might be addressed collaboratively through the review process.</li> <li>• Review Group of Councils develop, agree and commence implementation of Community Engagement Plan.</li> </ul>
Step 2	Confirm the key issues, all options for change and SSS Review partners	<ul style="list-style-type: none"> <li>• Review Group of Councils confirm and agree the key issues.</li> <li>• Review Group of Councils consider the four main options for change and how these will address the key issues identified.</li> <li>• Review Group of Councils consider whether there are additional options for change in addition to those supported under the current legislation.</li> <li>• Review Group of Councils develop second contract for the appointment of the IRF for the Comprehensive Review Phase.</li> <li>• Review Group of Councils confirm and agree whether review partners are still appropriate.</li> <li>• IRF and Review Group of Councils develop and agree to review TOR, project plan and budget for the Comprehensive Review Phase.</li> <li>• Review Group of Councils develop second contract for the appointment of the IRF for the Comprehensive Review Phase’.</li> <li>• Review Group of Councils seek funding from DLGPSR under the RCCBP to commence Comprehensive Review Phase including funding for ongoing appointment of IRF. A copy of the TOR, project plan and budget should be attached to the application for funding. Refer to the SSS Kit: Chapter 7 - Regional Collaboration and Capacity Building Program, for copy of funding guidelines.</li> <li>• IRF provide LGAQ with a copy of TOR, project plan and budget for Comprehensive Review Phase.</li> <li>• IRF evaluates and continues implementation of Community Engagement Plan.</li> </ul>

*Source:* LGAQ (2006, Chapter 2, pp. 9–11).

Table 5.4 suggests that four months is a comparatively short timeframe for a ‘Review Group of Councils’ to complete all of these tasks. For example, Step One required liaison with QTC, the conduct of sustainability assessments for each council in the group using 13 separate sustainability indicators (see Table 5.6), identification of ‘key

issues' through the sustainability assessment process, determination of strategies in response to the key issues identified, and the preparation and commencement of community engagement activities. Step Two required the 'Review Group of Councils' to achieve consensus on these key issues and how one or more of the 'options for change' summarised in Table 5.2 would address these key issues. Step Two also required a further contract to be developed with the IRF, the development of a project plan and funding submission for the next phase of the process (Comprehensive Review Phase) and continuation of community engagement activities. It is important to note that carrying out all these tasks within this timeframe was likely to have been more difficult for the Review Group of Councils, which contained a number of large councils. For example, the Moreton Bay Coast and Country Review Group north of Brisbane was made up of four large and diverse councils – Caboolture Shire Council, Pine Rivers Shire Council, Kilcoy Shire Council and Redcliffe City Council, as summarised in Table 5.5.

**Table 5.5 Key Characteristics of Participating Councils – SSS Review Group of Council North of Brisbane**

Name	Caboolture Shire Council	Pine Rivers Shire Council	Kilcoy Shire Council	Redcliffe City Council
Class	Shire	Shire	Shire	City
Size	1,225 sq km	750 sq km	1,445 sq km	36 sq km
Population 2006	135,062	149,261	3,605	53,523
Population 2026	210,231	215,700	4,619	60,164
Electors 2007	84,955	94,035	2,341	35,124
Electoral arrangements	Divided 6 councillors plus mayor	Divided 10 councillors plus mayor	Undivided 8 councillors plus mayor	Undivided 7 councillors plus mayor
Electors per councillor excluding mayor	14,159	9,403	292	5,017
Total operating revenue financial year 2006	\$120 million	\$129 million (estimated)	\$5 million	\$48 million
Annual capital expenditure financial year 2007-2015	\$58 million	\$64 million	\$4 million	\$13 million
Total assets at 30 June 2006	\$1,274 million	\$1,439 million (estimated)	\$50 million	\$465 million
Debt at 30 June 2006	\$19 million	\$30 million (estimated)	\$1 million	\$9 million
Community equity at 30 June 2006	\$1,231 million	\$1,347 million (estimated)	\$48 million	\$474 million

Source: LGRC (2007a, pp. 234, 285).

Given the size of the councils in the Moreton Bay Coast and Country Review Group, as summarised in Table 5.5, and the tasks outlined in Table 5.4, it can be reasonably argued that the administrative processes, community engagement activities, coordination and facilitation of meetings between councillors and relevant senior council staff, and reporting requirements of this phase would have been a very time-consuming and labour-intensive process to comprehensively complete within the prescribed timeframes. Furthermore, it can also be argued that large Review Groups of Councils, like the one described in Table 5.5, would find meeting these timeframes especially difficult, given the number of people likely to be involved and the consensus-based approach of the SSS initiative. A disagreement between participating councils on just one of the abovementioned major tasks could have delayed the process for a number of weeks. Perhaps these short timeframes in the early stage of the SSS initiative may be a reasonable explanation in some instances for the lack of progress inferred by the Queensland Government in the following statement: ‘the pace of SSS has been driven by the participating councils’, and ‘while the first councils sought and received funding in the first half of 2006, only five SSS have to date moved to the Comprehensive Review phase (the second funding stage in the SSS process)’ (Department of Local Government, Planning, Sport and Recreation 2007, p.15).

Chapter 3 of the SSS Kit outlined the sustainability indicators to be used as part of the SSS initiative. Sustainability indicators were defined in this chapter of the SSS Kit as being able to ‘identify where there might be present or future vulnerabilities, opportunities and strengths’. The SSS Kit stated that ‘all councils are expected to use these indicators as a minimum in their assessments [of current and future sustainability]’ (LGAQ 2006, Chapter 3, p. 5). It went on to provide the following comments about the SSS indicators:

- Relate to the key issues confronting local government (they are relevant);
  - Support the statutory requirements of the Local Government Regulation (they are relevant);
  - Have been endorsed by participants at the SSS Conference (they are understood);
  - Recognise the intrinsic links that exist in the operation of Local Government and the services it provides (capable of relating to other indicators); and
  - Many can be measured quantitatively; the rest will require qualitative measurement (as far as possible, the indicators will be reliable and based on assessable data).
- (LGAQ 2006, Chapter 3, p. 5)

Table 5.6 provides a summary of these sustainability indicators.

**Table 5.6 Summary of SSS Sustainability Indicators**

Sustainability Category		Sustainability Indicator
1	Financial and resource base	<ol style="list-style-type: none"> <li>1. Financial forecasts</li> <li>2. Revenue base</li> <li>3. Rating capacity</li> <li>4. Asset sustainability</li> <li>5. Levels of service</li> <li>6. Human resourcing</li> <li>7. Cross-border use of council services</li> </ol>
2	Community of interest	<ol style="list-style-type: none"> <li>1. Service centre and community linkages</li> <li>2. Community engagement</li> </ol>
3	Planning	<ol style="list-style-type: none"> <li>1. Service coordination and efficiency</li> <li>2. Growth management</li> </ol>
4	Standards of governance	<ol style="list-style-type: none"> <li>1. Decision making and management</li> <li>2. Accountability</li> </ol>

Source: LGAQ (2006, Chapter 1, p. 6).

Chapter 3 of this thesis argued that a broad view of local government sustainability considering more than financial matters is a more appropriate approach to measuring local government performance and, ultimately, the need for structural reform. Dollery, Byrnes and Crase (2008) (see Table 3.21) provided a theoretical example of this approach. Table 5.7 maps the SSS sustainability indicators listed in Table 5.6 using this typology.

**Table 5.7 Determinants of Council Sustainability**

	Internal	External
<b>Financial</b>	<ul style="list-style-type: none"> <li>• Asset sustainability</li> <li>• Levels of service</li> <li>• Service coordination and efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Financial forecasts</li> <li>• Revenue base</li> <li>• Rating capacity</li> </ul>
<b>Non-financial</b>	<ul style="list-style-type: none"> <li>• Human resourcing</li> <li>• Decision making and management</li> <li>• Accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Cross border use of council services</li> <li>• Service centre and community linkages</li> <li>• Community engagement</li> <li>• Growth management</li> </ul>

Source: Adapted from Dollery, Byrnes and Crase (2008) and LGAQ (2006).

From Table 5.7 it can be argued that the SSS initiative is a best-practice example of a reform process taking a more comprehensive approach to local government sustainability. It should also be noted that the SSS Kit provided a thorough description

of each sustainability indicator and how it should be applied. Chapter 4 of the SSS Kit expanded on the information contained in the LGAQ's Discussion Paper about the options for change (see Table 5.2). As part of the SSS process, councils were required to consider, within the context of their Review Group of Councils, if any of these options for change would be relevant in addressing any sustainability issues identified by the sustainability indicators. The chapter focussed on the shared services option of structural reform by including two reports on the 'Opportunities for Local Government in the Area of Shared Services' by consulting firms KPMG and KM Consulting. The KPMG report contained the following information:

- Definitions and features of shared services;
- Benefits and risks of shared services;
- Processes and functions for shared services;
- Critical success factors for shared services; and
- Examples of shared services in practice (LGAQ 2006, Chapter 4, pp. 18–28).

The KM Consulting report contained the following information:

- Definitions of shared services;
- Relevance of shared services to local government;
- Evidence of shared services in practice;
- Economies of scale and shared services; and
- Services best suited to shared services (LGAQ 2006, Chapter 4, pp. 29–40).

It can be argued that this focus on shared services in Chapter 4 of the SSS Kit was evidence that this was the preferred structural reform option for both the LGAQ and Queensland councils.

Chapter 5 of the SSS Kit described the role of IRFs. As we have seen, IRFs were appointed to assist each Review Group of Councils.

The LGAQ developed a list of pre-qualified IRFs. The role of the IRF is summarised as follows:

- Provide leadership, guidance and assistance to Councils at each step along the Review Framework to ensure appropriate commitment, communication, participation and ownership of the process and outcomes.
  - Project manage all aspects of the review process on behalf of the Review Group of Councils.
  - Ensure the key principles of the Review Framework are being upheld.
  - Encourage a shared commitment among Review Group of Councils to fully investigate the strengths and weaknesses of all options with prejudice so that informed decisions can be made in the best interests of local communities. Accordingly, the IRF is not, under any circumstances, to promote a single option(s) as the preferred outcome of a review.
  - Keep DLGPSR, LGAQ and the Sustainability Reform Advisory Group (SRAG) informed of the progress of each review.
- (LGAQ 2006, Chapter 1 pp. 7–8)

Dollery and Dallinger (2007) contended that an inherent deficiency of the SSS initiative was that it did not address the issue of conflict between councils in a ‘Review Group of Councils’. Whilst the role of the IRF (as described above) may include the responsibility to ‘facilitate’ a resolution to a conflict that may arise, how would they go about this task, since the SSS process as outlined did not address this issue? Dollery and Dallinger (2007, p. 68) asked whether disagreements between ‘options for change’ would be resolved solely on the sustainability assessments or whether political factors would also affect the final decision. They presented the following scenario: ‘if councils in a particular group are unable to reach agreement on both the methods and aims of reform, although reform has been deemed necessary following SSS guidelines, how will disagreement be tackled? (Dollery and Dallinger 2007, p. 68).

#### **5.4 DEMISE OF THE SSS INITIATIVE**

On April 17 2007, the Beattie government announced the cessation of the SSS initiative and formation of the Local Government Reform Commission (LGRC). Chapter 6 of this thesis deals with the establishment of the LGRC in detail, highlighting the key differences between the SSS initiative and the LGRC, and considers the response to this policy reversal from the local government sector, councils, local communities and media reports at the time. The following discussion provides a critical evaluation of the SSS initiative in order to propose an explanation as to why this policy reversal occurred.

The starting point for this critical evaluation is the Queensland Government’s stated reason for the demise of the SSS initiative, as outlined below:

Due to the voluntary nature of SSS and the variable level of commitment by councils across the state, the expectations of achieving serious reform to improve the sustainability of community

across Queensland will not be met for the next local government elections [2008]. This means that the opportunity for much needed reform will be lost until the 2012 council elections; a situation the State Government believes is unacceptable (Department of Local Government, Planning, Sport and Recreation 2007, p.17).

Any explanation for the demise of the SSS initiative must consider why the state government lost confidence in the SSS initiative, as in 2006 the Beattie government fully supported it. In the SSS Kit, a foreword from the then Minister for Local Government and Planning, Desley Boyle, stated:

As Minister for Local Government, I am committing \$25 million over five years to assist councils in carrying out their SSS reviews and implementing strategies for change. This funding will support a comprehensive, robust and transparent assessment through which councils can consider their future needs and priorities, and make decisions to address them (LGAQ 2006, 'Minister's Forward', p. 1).

Dollery and Dallinger (2007, p. 67) argued that a key difficulty facing collaborative local government reform, such as the SSS initiative, is the issue of councils' 'vested interests or local parochialism'. Dollery and Dallinger (2007, p. 67) described this issue in the following way: 'Put differently, can councils and their communities see the 'bigger picture' relating to sustainability of all local authorities in a given region?'

They also argued that, should a council decide to not cooperate with neighbouring councils as part of the SSS initiative and 'go it alone', then 'it can comparatively easily 'drag the chain' in terms of the SSS guidelines through various stalling tactics'. Should such a situation arise then this would provide the Queensland Government with a reason to impose reform potentially 'over-riding local opinion in favour of some perceived larger regional "common good"' (Dollery and Dallinger 2007, p 67).

The Queensland Government may have lost confidence in the SSS initiative because it considered that councils' self-interest and local parochialism was impeding progress under the SSS initiative within the timeframes prescribed by the state.

Dollery, Wallis and Crase (2007, pp. 6–7) concurred with this assessment in their review of the Queensland Government's *Local government reform: A new chapter for local government in Queensland* (2007) which outlines the purpose of the LGRC and the Queensland Government's broader policy agenda for local government. They noted that in this publication the Queensland Government 'bemoans the ostensible lack of



progress evident in collaborative service delivery, regional cooperation, resource sharing as well as “boundary change” and “amalgamation proposals” to emerge from the SSS initiative. The net result has been that ... regional collaboration projects between local governments are too few and are achieving too little’ (DLGPSR 2007, p. 15).

As we have seen, it is important to note that the SSS initiative timeframes may have been unrealistic to begin with. To progress through the abovementioned SSS process from start to finish and deliver structural reform outcomes in approximately two years (or less in some cases) may not have allowed enough time for the level of engagement and collaboration required by participating councils, especially in instances where there was disagreement between councils about preferred structural reform options. It can also be argued that more time may have been required to establish voluntary resource-sharing arrangements or boundary changes between councils, given the ‘bottom up’ collaborative process used in the SSS initiative.

Notwithstanding this fact, it is clear that the Queensland Government was looking for significant progress in the early stages of the SSS initiative and, when this did not eventuate, the government may have determined that ultimately self-interest and local parochialism would prevent any meaningful reform outcomes from the SSS initiative.

However, given the significant investment of funds by the Queensland Government in the SSS initiative, and the efforts of the state, the LGAQ and individual councils to implement this initiative, it does not seem reasonable to simply argue, one year into the SSS initiative, that adequate progress was not being made. Why did the Queensland Government require ‘serious reform’ out of the SSS initiative prior to the 2008 local government elections? Given that the state had committed \$25 million to the SSS initiative over five years in 2006, was it not possible to allow more time for progress to be made by councils under this initiative?

Whilst the reason for this timeframe cannot be determined empirically, it is not unreasonable to speculate that there may be a political explanation. Premier Beattie resigned in September 2007 and he may have wanted to see local government reform significantly progressed prior to his departure from politics.

In addition to losing confidence in councils' ability to deliver structural reform outcomes within expected timeframes under the SSS initiative, the Queensland Government also appeared to lose interest in considering structural reform options other than amalgamation. Initially, Minister Boyle expressed support for the SSS initiative delivering acceptable local government structural reform other than amalgamation as outlined in the minister's statement:

The SSS project will bring on a range of new developments. More councils will begin sharing resources with each other and in partnership with industry; some council boundaries may change; and some neighbouring councils may even merge with one another to reflect changing regional needs. Whatever the outcome, councils are encouraged to identify their own strategies for ensuring long-term sustainability (LGAQ 2006, Minister's Forward, p. 1).

This loss of interest in alternatives to amalgamation, as evidenced by the demise of the SSS initiative and subsequent establishment of the LCRC, was most unfortunate, as this element of the SSS initiative was one of its most innovative features when compared with similar structural reform programs elsewhere in Australia. Furthermore, this policy reversal represented a missed opportunity to thoroughly explore the potential of structural reform options other than amalgamation for Queensland local government.

The demise of the SSS initiative and subsequent establishment of the LGRC meant that the Queensland Government fell into line with the other states as described by Dollery, Grant and Kortt (2012, p. 25): 'structural reform centred on compulsory and occasionally voluntary council amalgamations seems to have retained an iron grip on State Government policy makers'. Why did the Queensland Government lose interest in structural reform options other than amalgamation, especially given the evidence in the academic literature that amalgamation is not the 'magic bullet' of local government reform (Dollery, Wallis and Crase 2007)?

Given the following comments from the LGRC in its Final Report, which was accepted by the Queensland Government in its entirety, it can be argued that the Queensland Government considered that forced amalgamations would deliver the same advantages as these other structural reform options, but in a more efficient manner.

The following comments were made in response to ‘suggestions’ made to the LGRC by the LGAQ and some councils about the merits of structural reform options other than amalgamation, which would have been considered as part of the SSS initiative.

The Commission has considered the merits of multi-purpose joint boards and shared services as alternatives to amalgamation, both generally and in the specific instances where they were proposed by councils. Following examination of the various models the Commission concludes:

- multi-purpose joint boards and strategic alliances do not deliver any additional efficiencies in local government service delivery that could not be achieved through amalgamation with less cost and greater accountability to constituents; and
  - regional co-operative structures and shared service arrangements generally offer less efficiency and economies of scale than could be achieved through amalgamation (essentially because of the additional overheads they incur).
- (LGRC 2007b, pp. 45–46)

Table 5.8 provides a summary of the key comments made by the LGRC in support of amalgamation over other reform options that were being considered as part of the SSS initiative.

**Table 5.8 LGRC Final Report: Amalgamation versus Other Structural Reform Options**

Other Structural Reform Option	Description	Key LGRC Comments
Multi-purpose Joint Local Governments (MPJLGs)	An entity governed by a board with representatives from participating councils that delivers a council service/s ‘across the area of the respective councils’.	MPJLGs would need statutory powers to function and this has the effect of ‘creating an additional tier of local government administration’. The extra costs associated with a MPJLG would be greater than one larger council ‘with the capacity to deliver to constituents directly’.
Shared Services	Shared services aim to achieve ‘cost efficiencies through scale’ using models from ‘simple agreements to share a common resource’ through to ‘councils outsourcing a range of back office functions’.	Larger councils with ‘increased capacity’ would be better placed to retain local employment opportunities and the ‘economies of scale and skills’ associated with a larger council would not be lost ‘to an outside organisation’.
Alliances (including integrated services)	The integration of one or more council ‘functions and services of the existing councils but maintaining ... separate council entities.’	Larger councils would have all the benefits of an ‘alliance’ without the associated ‘administrative complexity’.

Source: Adapted from LGRC (2007b, pp. 45–48).

The final assessment by the LGRC of these options, as presented in Table 5.8, was that ‘the Commission considered they are inferior options’ (LGRC 2007b, pp. 48–49). The

LGRC was of the view that all of the benefits ascribed to these options could be realised by the amalgamation of councils ‘with less bureaucracy and administration, and avoiding the complexity and delays that are an inevitable part of negotiating agreements with multiple councils’ (LGRC 2007b, p. 49). The LGRC also stated that ‘these approaches remain valid as management apparatus for use by accountable elected entities which can consider their applicability in addressing particular administrative, service delivery or contracting issues, not as a substitute for structural reform’ (LGRC 2007b, p. 49).

It is interesting to note that no empirical evidence was offered in support of these comments by the LGRC.

Conversely, as outlined in Chapter 4 of this thesis, empirical evidence has led to a different conclusion about the value of these other reform options compared with amalgamation. For example, following their comprehensive review of the existing conceptual, theoretical, empirical and practical evidence on shared services in local government, Dollery, Grant and Kortt (2012, pp. 248–249) concluded:

[I]n the realm of public policy, structural change aimed at enhancing the efficiency and effectiveness of local government should focus on fostering shared service arrangements for specific kinds of local government services and functions rather than the blunt instrument of forced amalgamations. The primary reason for the superiority of shared services over compulsory consolidation resides in the empirical reality that only some functions and services exhibit scale, scope or density characteristics associated with the level of output.

Given the LGRC’s position on structural reform options other than amalgamation, an explanation for the demise of the SSS initiative must also consider the possibility that the SSS initiative was simply a token exercise. Dollery and Dallinger (2007 p. 67) stated that ‘since individual councils are effectively “creatures of state legislation”, and thus are legally powerless to resist change, the SSS program could be seen as a “token exercise” or “stalking horse” camouflaging a particular state government agenda on local government reform’. If this was the case, was forced amalgamations the real agenda?

Rather than focussing on local government sustainability as espoused through the LGAQ-led SSS initiative, Aulich et al. (2011b, p. 104) chose to conclude that the

Queensland Government's real agenda for local government reform was to reinforce its regional approach to planning that had been in place over the past 20 years. This regional approach to planning was initially voluntary, 'based on a partnership' between the local government sector and the Queensland Government. However, when the Queensland Government subsequently determined that this voluntary approach was not successful in managing urban growth, the government introduced a 'statutory planning framework for managing growth' which 'formed the basis of the South East Queensland Regional Plan' in 2005. It was the intention of the Queensland Government 'that this statutory regional planning framework would be implemented throughout Queensland' (Aulich et al. 2011b, p. 104). Aulich et al. (2011b, p. 104) went on to state: 'the adoption of a statutory regional planning framework and the announcement of its intention to expand regional planning led to speculation that the government had a complementary council amalgamation agenda'.

Given this context, Aulich et al. (2011b, p. 104) contended that the Queensland Government's agenda 'was to create a more robust and capable system of local government ... capable of responding to the varied challenges facing different regions of Queensland'. They went on to describe this as enhancing the 'strategic capacity' of councils and to claim that this agenda 'can be seen to represent a decisive shift in the debate about structural reform ... with no mention of economies of scale or reducing rates' (Aulich et al. 2011a, p. 21). They argued that strategic capacity refers to a council's increased capacity to 'identify and respond to factors influencing the community's future'; similarly, that strategic capacity 'is more likely to be enabled when there is jointness of activity [such as] municipal consolidation' (Aulich et al. 2011a, p. 40). Subsequent to the demise of the SSS initiative, the charter of the LGRC, as outlined below, demonstrates the Queensland Government's commitment to the idea of a more regional approach to local government consistent with its regional approach to planning:

[T]o recommend structural changes to ensure strong, effective and financially-viable councils capable of:

- facilitating optimum service delivery to Queensland communities;
- effectively contributing to and participating in Queensland's regional economies;
- better managing economic, environmental and social planning consistent with regional communities of interest; and

- effectively partnering with other levels of government to ensure sustainable and viable communities.  
(LGRC 2007b, p. 32)

This regional approach to local government was also evident in the LGRC's recommendations. For example:

- The LGRC reduced the number of councils from 157 to 73 and established regional councils throughout the state; and
- In the case of the rapidly growing metropolitan area of South East Queensland ... nearly all the urban area ... [is] encompassed by just seven local councils, most with current or projected populations of 500,000 or more.  
(Aulich et al. 2011a, pp. 21–22)

If the above discussion accurately represents the real agenda for local government reform in Queensland, it raises a number of interesting questions. At what point did the SSS initiative become a 'token exercise' or 'stalking horse'? Did the Queensland Government ever believe that it could deliver a more regional style of local government with enhanced strategic capacity through the SSS initiative and structural reform options other than amalgamation? Whilst it can be argued that the Queensland Government was initially prepared to 'wait and see' what could be achieved through the SSS initiative, it ended up using the SSS initiative to legitimise the need for the state government to intervene as sufficient progress was not being achieved within the prescribed timeframes. It also used outcomes of the SSS initiative to further justify the need to intervene. For example, the QTC financial sustainability forecasts conducted as part of the SSS initiative demonstrated that '43% of all Queensland councils ... [were] rated as having a weak or worse financial outlook'; this was used by the state as part of its argument to discontinue the SSS initiative and establish the LGRC (Department of Local Government, Planning, Sport and Recreation 2007, p. 22). In addition to this, partial implementation of the SSS initiative meant that the local government sector could not argue that it was not given the chance to self-reform in response to the announcement that the LGRC would be formed.

This analysis of how the SSS initiative was used by the Queensland Government to legitimise a more direct and unilateral role in the reform of local government in Queensland is not dissimilar to the likely scenario envisaged by Dollery and Dallinger (2007, p. 68) prior to the demise of the SSS initiative. They observed:

[I]f a given council were to establish that, on present trends [through the SSS initiative], it was financially unsustainable, then this would present the state Government with a 'golden opportunity' to impose forced amalgamation or some other unpalatable reform measure. It could simply argue that the council itself has demonstrated its own unsustainability, but refused to take the necessary remedial measures, thus obliging the state government to intervene.

Furthermore, was the LGRC stakeholder engagement process also a token exercise camouflaging the Queensland Government's real agenda of forced amalgamations? In stark contrast to the 'best-practice' approach to community engagement as part of the SSS initiative (Dollery and Dallinger, 2007, p. 66), Aulich et al. (2011b) noted that the LGRC provided only a very short timeframe for community feedback and it did not recommend any of the alternatives to amalgamation proposed through this process. 'This led to a perception in some quarters that little weight was put on community input in drawing up the recommendations, which appeared to largely reflect the Government's views' (Aulich et al. 2011b, p.104). This perception of the LGRC stakeholder engagement process is validated when the timeframes of the LGRC are considered.

As we have seen, the Beattie government announced the cessation of the SSS initiative and formation of the LGRC on 17 April 2007. LGRC delivered its recommendation to the state government in just over three months on 27 July 2007. As of 25 May 2007 the LGRC had received 47,267 'suggestions' to consider as part of its deliberations. Whilst it is acknowledged that the majority of these were proforma letters, surveys, postcards and petitions, it is improbable that the LGRC could give due consideration to this material when developing its recommendations in such a short period of time (approximately two months). Therefore, if the LGRC was working towards recommendations that were consistent with the Queensland Government's views, how long did the Queensland Government have these views? Were they developed during the SSS initiative or after its demise? It is interesting to note that the LGRC stated that:

Significant work undertaken in previous reform processes (such as the local government driven SSS initiative, Queensland Treasury Corporation Financial Sustainability Reviews, and the EARC [Electoral and Administrative Review Commission] and PCEAR [Parliamentary Committee for Electoral and Administrative Review] work in early 1990s) provided substantial building blocks for the Commission's work. This contributed to the Commission being able to meet the legislative deadline for its work and to confidently take into consideration all relevant information in making recommendations against its Terms of Reference (LGRC 2007b, pp. 44-45).

In sum, the following explanation can be given for the demise of the SSS initiative. Local government reform formed part of the Beattie state government's agenda to complement its statutory regional planning framework. The LGAQ, as the peak body representing councils in Queensland, partnered with the Queensland Government through the SSS initiative in an attempt to ensure councils retained control over their future. Initially, the state demonstrated a commitment to the SSS initiative through the allocation of funding to assist in the implementation of this initiative. However, early in the SSS process the Queensland Government realised that this initiative was not going to deliver outcomes within the prescribed timeframes that were consistent with its real agenda – achieving a more regional approach to local government with councils that had enhanced strategic capacity at this regional level.

Given the state's desire for this type of approach to local government in Queensland, combined with the apparent lack of progress under the SSS initiative, and the time constraints imposed on the reform process by the state itself, forced amalgamations and the creation of large regional councils would become the state's preferred policy instrument. The Queensland Government took this approach, despite the existence of a significant body of evidence presented to it via the SSS initiative and the LGRC 'suggestions' questioning the effectiveness of forced amalgamations and highlighting the value of other structural reform options. Ultimately, forced amalgamations was a 'top-down' approach that the Queensland Government believed could be implemented relatively quickly and efficiently with the benefits other structural reform options could provide to local government in Queensland.

## **5.5 CONCLUDING REMARKS**

The SSS initiative provided a unique opportunity for the Queensland Government and local government sector to partner each other in a process to consider local government sustainability and structural reform that was conceptually robust and consistent with the ideal that councils should not be subject to involuntary reform. The SSS project methodology was well developed and councils were given excellent resources and support to undertake the work required, albeit within a short timeframe. However, the sudden demise of the SSS initiative and the establishment of the LGRC returned the Queensland councils to the 'well-worn path' in local government policy of forced



amalgamations. Chapter 6 now explores the impact of forced amalgamations recommended by the LGRC through a case study approach of the newly formed MBRC.

## **6. CONTEMPORARY LOCAL GOVERNMENT REFORM IN QUEENSLAND: A CASE STUDY OF MORETON BAY REGIONAL COUNCIL (MBRC) PART 1**

### **6.1 INTRODUCTION**

Chapter 5 critically evaluated the SSS initiative, which represented the first stage of contemporary local government reform in Queensland. This process concluded with an announcement by the state government to abandon the SSS initiative and establish the LGRC. The key outcome of this second stage of contemporary local government reform was embodied in forced amalgamations throughout Queensland and the establishment of very large regional councils in many parts of the state. In addition to involuntary amalgamations, new local government legislation was introduced as part the reform process and councils ceased to be responsible for the delivery of water and sewerage services. Implementing amalgamations, as well as complying with simultaneous legislative and functional reform concurrently under way, presented participating councils with many challenges. This chapter considers some of these challenges by examining the amalgamation of three large councils in south-east Queensland – Caboolture Shire Council, Pine Rivers Shire Council and Redcliffe City Council – into MBRC. The analysis focuses on two key corporate projects undertaken during the first term of this newly amalgamated council: the development of a consolidated rating policy and a corporate governance framework.

This chapter is divided into seven main parts. Section 6.2 provides background information on the former three local government areas and the newly formed MBRC. Section 6.3 introduces the LGRC, briefly considers the former three LGBs' submissions to the LGRC prior to amalgamation, and summarises the LGRC's rationale for creating this regional council. Section 6.4 critically evaluates the process of creating a consolidated rating policy for the newly amalgamated council, highlighting the complex political and operational factors inherent in this process. Section 6.5 details the creation of MBRC's new corporate governance framework, considering the requirements of the new legislation, describing elements of the governance framework and critically evaluating the framework's implementation. Section 6.6 highlights some current structural and functional reform issues facing MBRC post-amalgamation which

demonstrate that, for some local government areas in Queensland, there may be a third stage of contemporary local government reform. The chapter ends with some brief concluding remarks in Section 6.7.

## 6.2 BACKGROUND INFORMATION ON COUNCIL AREAS

Table 6.1 provides summary information for MBRC and the three former councils, Caboolture Shire Council, Pine Rivers Shire Council and Redcliffe City Council.

**Table 6.1 LGRC Summary of Council Areas**

New Local Government		Previous Local Governments		
Name	North Moreton Regional Council*	Caboolture Shire Council	Pine Rivers Shire Council	Redcliffe City Council
Class	Regional	Shire	Shire	City
Size	2,011 sq km	1,225 sq km	750 sq km	36 sq km
Population 2006	337,846	135,062	149,261	53,523
Population 2026	486,095	210,231	215,700	60,164
Electors 2007	214,114	84,955	94,035	35,124
Electoral arrangements	Undivided 12 councillors plus mayor	Divided 6 councillors plus mayor	Divided 10 councillors plus mayor	Undivided 7 councillors plus mayor
Electors per councillor excluding mayor	17,842	14,159	9,403	5,017
Total operating revenue financial year 2006	\$297 million	\$120 million	\$129 million (estimated)	\$48 million
Annual capital expenditure financial year 2007-2015	\$135 million	\$58 million	\$64 million	\$13 million
Total assets at 30 June 2006	\$3,178 million	\$1,274 million	\$1,439 million (estimated)	\$465 million
Debt at 30 June 2006	\$58 million	\$19 million	\$30 million (estimated)	\$9 million
Community equity at 30 June 2006	\$3,052 million	\$1,231 million	\$1,347 million (estimated)	\$474 million

\*Council name changed to Moreton Bay Regional Council

Source: LGRC (2007a, p. 234).

The key features of MBRC, compared with the former three councils in Table 6.1, provide an excellent example of how this new regional approach to local government was established by the LGRC. MBRC is the third-largest local government area in Australia behind Brisbane City and the Gold Coast in terms of population, and it has a comparatively large geographical size (2,011 sq km) for a predominantly urban council.

However, in creating such as large local government area, the LGRC significantly altered local representation by nominating only 12 councillors plus the mayor, resulting in a significant increase in the electors per councillor excluding mayor ratio (see Table 6.1). Whilst the LGRC recommended that MBRC be undivided for electoral purposes, this was subsequently changed by the Queensland Government so that there were 12 divisions, one per councillor.

### **6.3 LOCAL GOVERNMENT REFORM COMMISSION**

As stated in Chapter 5, the Beattie government announced the cessation of the SSS initiative and formation of the LGRC on 17 April 2007. This section critically evaluates four aspects of the LGRC:

- The policy context, stated purpose, and functions of the LGRC;
- Community reaction to the LGRC;
- The LGRC recommendation that created MBRC; and
- Community reaction to MBRC decision, and other LGRC recommendations.

*Local government reform: A new chapter for local government in Queensland (2007)* outlined the purpose of the LGRC and the state government's broader policy agenda for local government. The basic premise of the document was that the local government system in Queensland was over a century old and the state needed 'a modern, contemporary system of local government' (DLGPSR 2007, p.7). Andrew Fraser, the Queensland Local Government Minister at the time, observed:

Should our [council] boundaries be reviewed? The answer is a resounding yes. There's an antiquity of Queensland's local government boundaries – a stark matter of fact – which were largely put in place more than 100 years ago. The structure of our boundaries and their uncoupling from today's true communities of interest contribute to poor decision-making for planning and infrastructure provision (Fraser 2007, p. 37).

Further, the Queensland Government emphasised that the local government sector recognised the need for reform:

Local governments themselves realised the need to consider the appropriateness of Queensland's current local government system. In 2004, the Executive Group of the Local Government Association of Queensland (LGAQ) resolved to actively promote discussion amongst its members on the need to consider reform to ensure the long-term sustainability of local government in Queensland (DLGPSR 2007, p.7).

As described in Chapter 5, this resolution preceded the LGAQ Discussion Paper: *Future Size Shape and Sustainability of Queensland Local Government* and the SSS initiative that was partly funded by the state government. Despite being heralded as ‘the best example of voluntary cooperation process between state authorities and local councils in the history of Australian local government reform’ (Dollery, Wallis and Crase 2007, p. 1), the SSS initiative was abandoned by the Queensland Government. The Queensland Government stated:

Due to the voluntary nature of SSS and the variable level of commitment by councils across the state, the expectations of achieving serious reform to improve the sustainability of community across Queensland will not be met for the next local government elections [2008]. This means that the opportunity for much needed reform will be lost until the 2012 council elections; a situation the State Government believes is unacceptable (DLGPSR 2007, p.17).

In view of this policy position, the LGRC was established and its functions were outlined in Section 159S of the Local Government and Other Legislation Amendment Act 2007:

- (1) The reform commission has the following functions -
    - (a) to carry out a structural review of all local government areas;
    - (b) to make recommendations to the Minister for -
      - (i) how many local government areas there should be; and
      - (ii) what the external boundaries of each local government areas should be, including the local government areas for which no external boundary change is recommended; and
      - (iii) any class of local government area there should be in addition to the classes of city, town and shire, and the criteria that should apply for declaring a local government to be of that class;
    - (c) to recommend to the Minister, for each local government area as recommended by the reform commission under paragraph (b)(i) and (ii) -
      - (i) the name of the local government area; and
      - (ii) the class of the local government area; and
      - (iii) the composition of the local government for the area; and
      - (iv) whether the local government area should be divided, and if so, what the boundaries of the divisions should be, and how many councillors should be assigned to each division;
- ...

In addition to this description of the LGRC’s functions, Section 159U of the Act outlines the terms of reference for the commission as follows:

- (1) This section states terms of reference for the reform commission in performing its functions.
- (2) The reform commission must consider the grouping of like communities of interest to maintain the social fabric and character of communities and areas of the State, and in particular, must consider – (a) review areas established under SSS review processes; and (b) boundaries of areas covered by the regions for which regional planning advisory committees have been established under the Integrated Planning Act 1997.
- (3) The reform commission’s recommendations must be directed as – (a) consolidating, to the extent practicable, regional natural resource management areas, including for example water catchment areas, and environmental areas, including for example, coastal wetlands, and (b) creating local governments with improved financial sustainability.

- (4) In making a recommendation for creating a new local government area from 2 or more existing local government areas, the reform commission must give preference, to the extent practicable, to including all of the existing local government area in the new area rather than parts of the existing areas.
- (5) The reform commission must identify options for community representation that reflects the diversity of the State's regions and that promote representation of discrete communities.
- (6) In making recommendations for new arrangements, the reform commission must identify any issues requiring further consideration for successfully establishing the new arrangement.

Comparing the functions and terms of reference for the LGRC with the SSS initiative, outlined in the previous chapter, shows that the policy objectives of the LGRC and the SSS initiative were in conflict. Whilst the LGRC and the SSS initiative were both about local government reform, in reality the policy objectives of each process were different. The SSS initiative had a much broader scope considering a range of reform options, whereas the focus of the LGRC was solely on amalgamation. This is a key point, as although the state government used the rhetoric of local government reform in relation to the LGRC, the real policy agenda was amalgamations.

The LGRC was also different from the SSS initiative in that the LGRC had a very high profile in the wider community immediately after the announcement was made. Up until this point, the SSS initiative was relatively unknown to people outside of the local government sector. This high public profile and the likely reaction by local communities to amalgamation meant that the Queensland Government needed to provide a more comprehensive argument for amalgamations. It would not be sufficient to simply explain the background to the SSS initiative, a largely unknown process, and why this was abandoned. In doing this, the Queensland Government stated that 'the drivers for reform [amalgamations] in Queensland are the medium to long-term [financial] sustainability of local government and the need for greater collaboration in infrastructure and regional planning generally' (DLGPSR 2007, p.11).

In relation to the financial sustainability of councils, Dollery, Wallis and Crase (2007, p. 12) pointed out that 'financial sustainability is a matter for concern in all Australian jurisdictions ... [and] that (a) ongoing financial stress existed in all Australian local government jurisdictions regardless of whether or not they had undergone structural reform; and (b) that this demonstrated that amalgamation was not the 'magic bullet' as suggested' in the *Local government reform: A new chapter for local government in Queensland*.

In response to the assertion by the state government that ‘greater collaboration in infrastructure and regional planning generally was required,’ Dollery, Wallis and Crase (2007, p. 7) noted that there were a number of regional organisations of councils and shared services agreements throughout Queensland: ‘For instance [prior to amalgamations] eleven small local councils in falling under the RAPAD [Remote Area Planning and Development Board] umbrella in remote Central West Queensland perform a sterling array of joint functions.’

At the time of the announcement of the LGRC it was suggested that the creation of the Commission was a clever political strategy to deliver unpopular recommendations about council amalgamations. Williams (2007, p. 32) described the creation of the LGRC to be a ‘smart move’ by the Queensland Government as it ‘can handball the delivery of bad news to an independent body’. Furthermore, Williams (2007, p. 32) contended that the ‘short time frame provides less scope for angry councils to criticise’ and its ‘bipartisan constitution ... will quarantine to commission from accusation of bias’. Finally, Williams went on to suggest that the key driver for amalgamations was as follows:

[I]t’s hard not to conclude this plan is also about getting square with local governments who’ve had a fraught relationship with Beattie. We all remember the grief the powerful LGAQ caused the Premier over his first failed implementation of the ambulance levy. Recently, amid mutual blaming over the water crisis Beattie accused local councils of getting rich from water rates but failing to reinvest in infrastructure. It might also be a plan to emasculate the National Party, which uses local shires as recruiting grounds for state candidates (Williams 2007, p. 32).

What did not feature prominently in the Queensland Government’s argument for amalgamation was ‘social’ or ‘community sustainability’ as described by Dollery, Wallis and Crase (2007, p. 16). They argued that the rationale for the LGRC ‘place[s] far too much emphasis on financial sustainability and that sustainability of councils should also include non-financial elements such as local democracy, local social capital, and local capacity’. Table 6.2 summarises Dollery, Crase and Byrnes’s (2006b) description of these elements.

**Table 6.2 Non-Financial Elements of Council Sustainability**

Elements	Description
Local democracy	Virtues of the local democratic process such as ‘access’, ‘accountability’, ‘representativeness’ and ‘responsiveness’ (Aulich 1999).
Social capital	‘Sense of community’ and ‘sense of place’ generated by interactions with people in a community setting. Social capital is particularly evident in small rural local government areas.
Local capacity	<ul style="list-style-type: none"> <li>• ‘Well-functioning local leadership;</li> <li>• Sufficient administrative and technical expertise; and</li> <li>• Right to make autonomous decisions’.</li> </ul>

*Source:* Adapted from Dollery, Crase and Byrnes (2006b, pp. 9–10).

Whilst the non-financial elements of council sustainability in Table 6.2 are subjective and difficult to measure, the reaction of the local government sector to the LGRC announcement demonstrates how amalgamation has the potential to erode these elements of a local community, particularly local democracy and social capital which, in turn, can cause considerable community angst. At a sector-wide level, local government reacted strongly to the formation of the LGRC. The President of the (LGAQ), Councillor Paul Bell, noted that ‘councils were in turmoil and disarray over the decision ... We’re just feeling totally devastated’ (Bell 2007, p. 3). These initial comments made by Councillor Bell became a prelude to vocal, organised and emotive community responses to the announcement over the ensuing months across Queensland. Amalgamations received unprecedented and sustained coverage in state and local press in both rural and urban areas of Queensland. It was also centre stage on the national political agenda when the Howard government and Rudd opposition both claimed as their own the idea to hold referendums in order to give communities ‘a say’ on council amalgamations. Given this announcement was made only weeks before the federal election in 2008, it was viewed as being motivated by partisan-political considerations. Some of these community responses by mayors, councillors and residents are illustrated in tables 6.3 and 6.4. Table 6.3 provides examples of councils’ responses to the LGRC announcement, whilst Table 6.4 details some of the local authorities’ reaction to the announcement of LGRC recommendations of forced amalgamations.



**Table 6.3 Community Reaction to the LGRC Announcement**

Headline	Key Quote	Source
'Rural shires being sold out'	'I join with other residents of small rural shires in declaring my disgust at the decision by Premier Peter Beattie to merge so-called "unsustainable" shires to form super shires.'	Twist (2007, p. 35) The Courier Mail 28 April
'Merger push fuels'	'The mere thought that bush and regional councils will be forcibly merged at the whim of someone behind a city desk is enough to raise the ire of many Queensland communities.'	Barrett (2007b, pp. 24–25) The Courier Mail 10 May
'Ties that bind city and bush are stretched'	'Tuesday's 1000-strong protest rally at Barcaldine sent a clear message to the State Government that rural Queenslanders will not take forced amalgamations of their councils lying down ... those living in the bush have every right to question whether they will, in fact, be better off.'	Barrett (2007c, p. 28) The Courier Mail 10 May
'Merger truths emerge'	'Premier Peter Beattie has dismissed protest rallies against council amalgamations, declaring that most Queenslanders believed there were too many politicians in the state.'	Odgers and O'Brien (2007, p. 6) The Courier Mail 21 May
'Thousands warn: Hands off Noosa'	'Fifteen thousand of the 21,610 public submissions that had arrived at the office of the Local Government Reform Commission by Thursday night were signed by people who wanted a say in Noosa's future.'	Walker (2007, p. 4) Sunshine Coast Daily 26 May
'Councils aim for ratepayer-funded polls'	'At least 20 councils intend to hold ratepayer-funded referendums if they are earmarked for forced amalgamation.'	Barrett (2007d, p.15) The Courier Mail 26 July

Table 6.3 demonstrates that, at the time of the LGRC announcement, councils and their constituents throughout the state reacted angrily to the fact that amalgamation would be imposed upon them, and to the unilateral process proposed by the LGRC with limited opportunity for community involvement.

As shown in Table 6.4, right up until the time when forced amalgamations were being passed into law by the Queensland Parliament, councils and their constituents throughout Queensland were strongly opposed the recommendations of the LGRC. Again, the key theme of Table 6.4 is that communities reacted angrily to not being given an opportunity to 'have their say' on amalgamations. However, whilst the idea of referendums on the issue in local communities was proposed, the LGAQ quickly realised that the LGRC recommendations were not going to be revoked and it began the task of supporting councils in the change processes associated with forced amalgamations in Queensland.

**Table 6.4 Community Reaction to the LGRC Recommendations**

Headline	Key Quote	Source
'Amalgamations at a glance – What the Mayors said'	'I am absolutely devastated, this is the toughest thing that has ever happened in the history of Millmerran.' (Mayor of the former Millmerran Shire Council)	Antonio (2007, p. 6) The Chronicle [Toowoomba] 28 July
'The battle's not over yet: councils'	'Anyone that votes for Beattie after this needs their head read.' (Chapman 2007, p. 8) (Mayor of the former Pine River Shire Council)  'Don't expect us to lie down, we won't, we will be back.' (Abbot 2007, p. 8) (Mayor of the former Noosa Shire Council)  'Rates will need to be increased or services cut to pay for the sweeping and complicated local government mergers announced yesterday, councils have warned.'  'With fewer councils than state electorates, the recommendations of the Local Government Reform Commission were described by the councils peak body as a "wholesale slaughter". Mayors have vowed to fight the historic changes "to the death" and will go ahead with referendums ...'	Barrett and Chalmers (2007, p. 8) The Courier Mail 28–29 July
'Redcliffe rage'	'An angry Redcliffe City Mayor and his councillors ambushed Local Government Minister Andrew Fraser yesterday as he made his first attempts to sell controversial amalgamation plans ... The mayor and councillors were furious Redcliffe will merge with bigger neighbours, Caboolture Shire and Pine Rivers Shire.'	Giles (2007, p. 9) The Courier Mail 29 July
'Huge protest'	'The battle against council mergers hit Brisbane streets yesterday, as about 8000 people rallied to protest plan they say will destroy their way of life ... polling showed more than half the residents in shires facing amalgamation are opposed to the move.'  Opposition leader Jeff Seeney pledged to de-amalgamate councils with community support if they came to office.'	Barrett (2007e, pp. 2–3) The Courier Mail 4–5 August
'Noosa leads the battle against council amalgamations'	'They came well dressed but angry. The Noosa community mobilised from flat-white drinking, pearl-wearing stereotype to form a highly organised lobby group intent on protecting their lifestyle on the northern Sunshine Coast.'  '... most communities seem to be coming to terms with the sweeping changes. Even councils' peak body, the Local Government Association of Queensland, has launched a program of change after their strident opposition to force amalgamations.'	Barrett (2007f, p. 52) The Courier Mail 4–5 August

(continued overleaf)

Table 6.4 (continued)

Headline	Key Quote	Source
'Referendum plan divides mayors'	<p>'The federal government yesterday bought into the "gloves off" stoush between councils and the State Government, offering taxpayers' money to run referenda on forced council amalgamations ...'</p> <p>But one council is not going to wait for a referendum to voice their disapproval. Redcliffe councillors and residents will push a wheelbarrow more than 40km to Brisbane from 4am today. They will deliver petitions with 22,046 signatures of those opposed to the forced merger with Caboolture and Pine Rives from next March.'</p>	Barrett (2007a, pp. 2–3) The Courier Mail 8 August
'Blistering broadside delivers historic day'	<p>'Queensland's Parliament achieved a state best described as a proper uproar last night as debate over the controversial local government amalgamation reached its peak.'</p> <p>'This is an historic day. It'll be a blueprint for change in regional Queensland and help create new economic and industrial hubs of national and international significance. Mr Beattie thundered.'</p>	Whenham (2007, p. 12) The Courier Mail 10 August

As Table 6.1 demonstrates, MBRC is a large council area (the third largest in Australia in terms of population) and it was created amongst severe community opposition (tables 6.3 and 6.4). To follow is a brief outline of MBRC's formation by the LGRC, including the rationale for this amalgamation, and the suggestions from the former councils to the Commission. Consistent with the requirements of Section 159S(1)(a)(b)(c) of the *Local Government and Other Legislation Amendment Act 2007*, the LGRC in Volume 2 of its Final Report made the following recommendation in relation to Caboolture Shire, Pine Rivers Shire and Redcliffe City councils:

- (i) the existing local governments of Caboolture Shire, Pine Rivers Shire and Redcliffe City Councils be abolished and a new local government be formed based on the combined area of the three existing local governments;
  - (ii) the new local government be called North Moreton Regional Council;
  - (iii) the new local government be undivided with 12 councillors and a mayor; and
  - (iv) the new local government be classed as a regional local government.
- (LGRC 2007a, p. 234)

Subsequent to this decision of the LGRC, the amalgamating councils requested that the name of the new council be renamed Moreton Bay Regional Council and that the council area be divided for electoral purposes. The Queensland Government approved both requests. Table 6.5 summarises the rationale for this recommendation consistent with section 159U of the Act.

**Table 6.5 Summary of LGRC Rationale for MBRC**

Elements of the LGRC Rationale	Summary
Communities of interest	Caboolture Shire, Pine Rivers Shire and Redcliffe City councils are mostly urban areas; they make up a significant area of the South East Queensland Urban Footprint as defined in the state government South East Queensland Regional Plan and have a 'very strong social and economic relationship with dependency on Brisbane City'.
Consolidating regional natural resource management areas	These councils share 'a common sub-regional catchment area including the North and South Pine River catchment and the Caboolture River catchment'.
Improving local government sustainability	Despite each of these councils being rated 'strong' in term of their financial sustainability, the LGRC concluded that 'benefits of economies of scale [provided by MBRC] around the provision of core local government services should result in the delivery of a wider range of services and/or lower costs to residents'.
Amalgamation of 'entire' local government areas	All area of these three councils was amalgamated to form MBRC.
Community representation of discrete communities throughout Queensland	<p>The LGRC reinforced the following commonalities that exist between these councils such as their relationship to Brisbane City and the need for a regional approach to a variety of planning matters in response to predicted high levels of population growth.</p> <p>The LGRC also stated that an amalgamation of these three councils would 'provide the necessary political leadership and advocacy capability, size, financial and technical resources to successfully address the land use, natural resource, environmental, economic and social challenges of the region'.</p>
'Any issue requiring further consideration'	The LGRC did not foresee any implementation or ongoing boundary issues associated with the creation of MBRC.

*Source:* Adapted from LGRC (2007a, pp. 235–237).

The key elements of the rationale for MBRC can be identified from the information in Table 6.5. First, the area was considered to be a mostly urban region in close proximity to Brisbane with strong population growth predicted. Second, it was considered by the LGRC that MBRC would have the 'strategic capacity' to respond to the various challenges of this region, as highlighted in Table 6.5, and, third, MBRC would be able to generate economies of scale and scope in the provision of local government services for the benefit of its constituents.

As part of the LGRC deliberations, local authorities and other interested groups and persons were able to submit 'suggestions' to the LGRC. In Volume 2 of its Final Report, the LGRC also summarised the suggestions provided by Caboolture Shire, Pine Rivers Shire and Redcliffe City councils as listed in tables 6.6, 6.7 and 6.8, respectively.

**Table 6.6 Caboolture Shire Council LGRC Suggestion**

<b>Local Government Area</b>	<b>Suggestion</b>	<b>Rationale</b>
Caboolture Shire Council	<ul style="list-style-type: none"> <li>• External boundaries to remain unchanged.</li> <li>• Minor internal change to divisional boundaries.</li> <li>• Number of councillors and council name to remain the same.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher rates for Caboolture residents under an amalgamated council due to increased debt, weaker financial outlook, and a need for increased spending on development and infrastructure.</li> <li>• Loss of community identity for the rural areas of Caboolture Shire.</li> </ul>

*Source:* Adapted from LGRC (2007a, p. 238).

Table 6.6 shows that Caboolture Shire Council proposed it would be in a stronger financial position if its boundaries were left unchanged and that amalgamation would adversely affect the rural areas of the Caboolture Shire. No suggestion for amalgamation was proposed with the Caboolture Shire Council.

**Table 6.7 Pine Rivers Shire Council LGRC Suggestion**

<b>Local Government Area</b>	<b>Suggestion</b>	<b>Rationale</b>
Pine Rivers Shire Council	<ul style="list-style-type: none"> <li>• Preference 1 – council boundaries to remain unchanged.</li> <li>• Preference 2 – amalgamation with Redcliffe City Council.</li> <li>• It was suggested that ‘the new local government area would be named City of Pine Rivers and would have 12 electoral divisions.’</li> </ul>	<p>Preference 1</p> <ul style="list-style-type: none"> <li>• Current council size can achieve greater economies of scale and efficiencies.</li> </ul> <p>Preference 2</p> <ul style="list-style-type: none"> <li>• Various infrastructure links (water and roads) already exist between Pine Rivers Shire and Redcliffe City councils.</li> <li>• Geographical size is ‘manageable’.</li> <li>• ‘Environmental benefits with one local government responsible for almost the entire Pine River catchment area.</li> </ul>

*Source:* Adapted from LGRC (2007a, p. 237).

Table 6.7 shows that Pine Rivers Shire Council was of the view that it was already large enough to generate more economies of scale and other efficiencies. However, it did propose that an amalgamation with Redcliffe City may be an option, given the existing infrastructure links between the two council areas and the shared environmental attributes.

Table 6.8 shows that Redcliffe City Council proposed a boundary change rather than amalgamation in order to more accurately reflect what it believed was local community interest. Being considerably smaller than both Caboolture Shire Council and Pine

Rivers Shire Council, Redcliffe City Council argued that its responsiveness to local preferences for council services would be lost in an amalgamated council.

**Table 6.8 Redcliffe City Council LGRC Suggestion**

Local Government Area	Suggestion	Rationale
Redcliffe City Council	<ul style="list-style-type: none"> <li>Boundary extension to include areas of Caboolture and Pine Rivers Shire.</li> <li>It was suggested that ‘the new local government with the extended boundaries continue to be called Redcliffe City Council’ and ‘be undivided for electoral purposes’.</li> </ul>	<ul style="list-style-type: none"> <li>A strong community of interest exist between the boundary extension areas and Redcliffe City Council.</li> <li>An amalgamation with either or both neighbouring councils would ‘result in Redcliffe’s focused service delivery being lost to a large cumbersome organisation attempting to service the needs of numerous vast and disparate communities’.</li> </ul>

*Source:* Adapted from LGRC (2007a, p. 237).

Table 6.9 summarises the LGRC’s response to these suggestions.

**Table 6.9 LGRC Response to Suggestions from Former Councils**

Former Councils	Summary of LGRC Response
Caboolture Shire	<ul style="list-style-type: none"> <li>Agreed that Caboolture Shire had the capacity to remain unchanged.</li> <li>Considered the amalgamation of Caboolture Shire, Pine Rivers Shire and Redcliffe City councils to be more beneficial.</li> </ul>
Pine Rivers	<ul style="list-style-type: none"> <li>Agreed that Pine Rivers Shire had the capacity to remain unchanged.</li> <li>Agreed with the suggestion that Pine Rivers Shire could successfully amalgamate with Redcliffe City.</li> <li>Considered the amalgamation of Caboolture Shire, Pine Rivers Shire and Redcliffe City councils to be more beneficial.</li> <li>Stated that ‘a decision to not amalgamate the local governments would fail to exploit opportunities for the future in terms of planning, infrastructure delivery, capacity and economic and social development, and generate the need for “co-ordinating mechanisms” to be established with cross boarder issues’.</li> </ul>
Redcliffe	<ul style="list-style-type: none"> <li>‘Determined the boundary change is sub-optimal as the following issues would not be addressed: <ul style="list-style-type: none"> <li>inability to develop a regional strategy and plan;</li> <li>overlapping planning and development issues that would require coordination mechanisms to be established with the Pine Rivers and Caboolture councils, creating unnecessary costs and diminished decision making efficiencies particularly in relation to infrastructure and water supply;</li> <li>potentially sub-optimal development of commercial, industrial and retail infrastructure; and</li> <li>potentially inconsistent approaches to natural resource management for the region.’</li> </ul> </li> </ul>

*Source:* Adapted from LGRC (2007a, p. 238).

Table 6.9 shows that the LGRC, whilst agreeing that both Caboolture Shire Council and Pine Rivers Shire Council could remain unchanged, and that Pine Rivers Shire Council could amalgamate with Redcliffe City Council, argued that improved regional outcomes, especially in the areas of planning, infrastructure provision and economic development, could be achieved through an amalgamation of all three council areas.

#### 6.4 MBRC CONSOLIDATED RATING POLICY

Council amalgamations generate many changes in participating councils, and some of these changes affect their constituents. However, all these changes cannot be implemented simultaneously. Many changes are complex and have significant financial, operational and political effects on the council, and councillors and senior council officers are required to prioritise the most critical changes.

This section uses a case-study approach to document the significance and complexity of these changes and to demonstrate that, in some instances, amalgamations have significant impacts on affected communities long after the announcements have been made and the elections have been conducted. The first case study considers the impact of amalgamations on council's rating policy.

Johnson (2003, p. 51) observed that 'rate revenue is the single largest source of revenue for most Australian local governments, comprising approximately 37 per cent of total local government revenue'. Table 6.10 provides a breakdown of MBRC income sources in 2009/10.

**Table 6.10 MBRC Income Sources 2009/10**

Income source	Amount	Per cent of Total
Rates and utility charges	\$325.4m	58%
Federal and state grants and subsidies	\$62.3m	11%
Assets given to council from developers	\$51.0m	9%
Developer cash contributions for future infrastructure	\$45.0m	8%
Fees and charges	\$44.2m	8%
Other	\$23.5m	3%
Investment revenue	\$13.9m	2%
Sale of assets	\$2.7m	0%
<b>Total</b>	<b>\$568m</b>	<b>100%</b>

*Source:* MBRC (2010a, p. 66).

As seen in Table 6.10, in 2009/10 MBRC collected 58% of its income from rates and charges. One of the key operational reforms resulting from the amalgamation process was the development of a 'consolidated approach to rating' (MBRC 2010b, p 39). From the formation of MBRC in March 2008 until 30 June 2010, council was levying rates and charges using a 'district' approach. The 'district' approach was adopted under Chapter 14 of the *Local Government Act 2003* and allowed council to 'make and levy rates and charges ... within the former council's local government areas on a similar basis to that adopted by each of the former councils' (MBRC 2009a, p. 67).

In each of MBRC's revenue policies since amalgamation it has stated that council 'will have regard to' the following principles in the 'making of rates and charges:'

- Transparency
- Accountability
- Simplicity
- Equity
- Flexibility
- Fiscal responsibility (MBRC, 2010b, p. 39).

The 'district' approach to levying rates and charges created a significant equity issue across the region. Council rates are calculated by multiplying the Unimproved Capital Value (UCV) of the land by the rate in the dollar of the relevant rating category. This amount, if greater than the minimum general rate (MGR) for the rating category, becomes the rate charged by council. If not, the MGR is the rates charge for the property.

The equity problem became acute when rates were calculated on similar properties, such as land being used for residential purposes with the same UCV, in different districts. Table 6.11 illustrates this equity problem using the actual rating categories applied by MBRC in the 2009/10 financial year based on the average residential UCV of \$375,089 for that same year (MBRC, 2010c).



**Table 6.11 Rating Implications of the ‘District’ Approach in MBRC 2009/10**

MBRC District	Rating Category	Rate in the Dollar	General Rates Payable Per Annum
Caboolture	Category 1 Residential, Farm and Vacant Rural Land	0.004779	\$1,792.55
Pine Rivers	Category A Includes all rateable land in the following zones under the provisions of the Integrated Panning Act 1997 – Pine Rivers Plan ... : <ul style="list-style-type: none"> <li>• Residential A</li> <li>• Residential B</li> </ul>	0.006151	\$2,307.17
Redcliffe	Category 1 All rateable land in the District which is not identified [in any other rating categories]	0.004828	\$1,810.93

Source: MBRC (2009a, pp. 72, 76, 91, 96, 107, 110).

Table 6.11 shows that a property in Caboolture with a UCV of \$375,089 in 2009/10 would be levied \$514.62 less than a property in Pine Rivers with the same valuation, and \$18.38 less than a property in Redcliffe with the same valuation. In 2009, work commenced in earnest to develop a ‘consolidated approach to rating’ for council adoption as part of the 2010/11 Budget. Over a period of several months, extensive research, councillor engagement and financial modelling was undertaken to develop what was described by the Mayor as ‘what all Moreton Bay ratepayers have been eagerly and patiently awaiting since amalgamation – one rating policy for the entire region’ (MBRC 2010b, Mayor’s Message). The methodology used in developing this ‘consolidated approach to rating’ is detailed below.

According to section 107 of the *Local Government (Finance, Plans and Reporting) Regulation 2010*, councils are required to include the following features as part of their rating policy (known as a revenue statement in the Regulation):

- (1) The revenue statement must state –
  - (a) if the local government levies differential general rates –
    - (i) the rating categories for rateable land in the local government area; and
    - (ii) a description of each rating category; and ...’

Preparing this ‘consolidated approach to rating’ presented a unique opportunity for significant reform in the rating practices of the three former councils. To this end, extensive research was undertaken by MBRC in the rating policies of the other six South East Queensland councils:

- Brisbane
- Gold Coast
- Ipswich
- Logan
- Redlands
- Sunshine Coast.

The research process involved identifying and evaluating the common approaches and the underlying principles to rating policies across these councils and evaluating the effects of these policies when applied to the MBRC rating base. This information was presented to the council which provided an opportunity for it to consider, at a strategic level, what categories should be included in the MBRC rating policy. Detailed financial modelling of these categories was then undertaken to determine the likely impacts on ratepayers and council's revenue base. By taking this approach, the council was able to deliver new and innovative rating outcomes for MBRC. For example, one of the key outcomes of the research process was the realisation that every other South East Queensland council had one or more rating categories for non-owner occupied properties. These properties were commonly defined as *not* being 'the principal place of residence of at least one person who constitutes the owner of the property' (Brisbane City Council, 2011, p. 250). Brisbane City Council also stipulated what council considered when determining a 'principal place of residence'. These considerations include the 'owner's declared address for electoral, taxation, government social security or national health registration purposes, or any other form of evidence deemed acceptable by the Council' (Brisbane City Council 2011, p. 248). This type of rating category for non-owner occupied properties was not employed by any of the former Caboolture Shire, Pine Rivers Shire and Redcliffe City councils and therefore was not in MBRC's 'district' approach to rating. Table 6.12 shows how each South East Queensland council applied a higher minimum general rate and rate in the dollar amount for their predominant residential non-owner occupied separate house category than for the corresponding residential, owner-occupied separate house category.

**Table 6.12 Summary of Key Rating Information 2009/10\***

<b>Local Government Areas (Predominant Rating Categories for Non-Owner Occupied and Owner Occupied Separate House)</b>	<b>Minimum General Rate</b>	<b>% Increase for Minimum General Rate</b>	<b>Rate in the \$</b>	<b>% Increase for Rate in the \$</b>
<b>Brisbane</b>				
Residential - owner occupied	\$434.20	24.89%	0.00328000	26.59%
Residential - non-owner occupied or mixed use	\$542.28		0.00415200	
<b>Gold Coast</b>				
Single unit dwelling not rented	\$683.00	20.05%	0.00325200	20.08%
Single unit dwelling rented to permanent residents	\$820.00		0.00390500	
<b>Ipswich</b>				
Land that is primarily residential	\$560.00	23.21%	0.00712800	24.68%
Land that is primarily residential and a rental property	\$690.00		0.00888700	
<b>Logan</b>				
Residential and other land (former Logan and Gold Coast)	\$551.00	20.33%	0.00307600	29.36%
Non-owner occupied residential (former Logan and Gold Coast)	\$663.00		0.00397900	
<b>Redlands</b>				
Residential - Registered owner's principal place of residence (mainland, Coochiemudlo Island, North Stradbroke Island) UCV 0 - \$181,161	\$649.39	2.50%	0.00510207	2.50%
Residential - Not the registered owner's principal place of residence (mainland, Coochiemudlo Island, North Stradbroke Island) UCV 0 - \$181,162	\$665.63		0.00522962	
<b>Sunshine Coast</b>				
Residential/other with a UCV from \$0 to \$250,000	\$870.00	19.89%	0.00365200	11.12%
Residential - not principal place of residence - with UCV from \$0 to \$420,000	\$1043.00		0.00405800	

Source: (Brisbane City Council 2009, pp. 283, 288, 291, Gold Coast City Council 2009, pp. 21, 23, Ipswich City Council 2009, pp. 17, 29, 30, Logan City Council 2009, pp. 52, 53, Redlands City Council 2009, pp. 61, 63, Sunshine Coast Regional Council 2009, pp. 14, 22.)

\*(non-owner occupied separate house and owner-occupied separate house).

The key rationale for these higher rates in Table 6.12 for the predominant residential non-owner occupied separate house category was to promote horizontal equity, since rates on rental properties were tax deductible (i.e. the property is being used for a different, income-generating purpose). This creates a disparity between the financial impact of the rates on non-owner occupied property owners compared with owner occupied property owners. This disparity is caused by the fact that rates reduce the taxable income of these non-owner occupied property owners.

Each aspect of MBRC's new rating policy followed this methodology. Council officers were able to model how the MBRC rating policy was going to affect the rates payable by each property owner throughout the local government area. This was of great assistance to the council since the implications of this new rating policy were clear as the policy was being developed. What became quickly evident through this financial modelling process was that the new MBRC rating policy was going to increase rates for some property owners and decrease rates for others. This inherent equity problem is well illustrated in council's decision to set MGRs for the different rating categories under the new MBRC rating policy.

According to section 107 (2) of the *Local Government (Finance, Plans and Reporting) Regulation 2010*, councils are required to include in their rating policy:

- (a) an outline and explanation of the measures that the local government has adopted for raising revenue, including an outline and explanation of -
- (i) the rates [for each rating category] and charges to be levied in the financial year; and ...

Council's rates and charges under their rating policy may include a MGR for each rating category as stated below in Section 11(1) (2) and (5) of the Regulation:

- (1) A local government may fix a minimum amount of general rates.
- (2) The local government may identify parcels of rateable land to which a minimum amount of general rates applies in any way the local government considers appropriate.
- (5) However, a local government may fix a different minimum amount of general rates only for -
  - (a) if there are different rating categories of rateable land for the local government area, each different rating category; or ...

Using residential properties as an example, under the 'district' approach to levying rates and charges, the MGR for residential properties is summarised in Table 6.13.

**Table 6.13 MBRC District MGRs for Residential Properties 2009/10**

District	MGR for Residential Properties
Caboolture	\$827
Pine Rivers	\$559
Redcliffe	\$640

*Source:* MBRC (2009a, pp. 76, 96, 110).

Table 6.13 demonstrates that in 2009/10 there was a different MGR for residential properties being used in each of the three former council areas. Under the new MBRC

rating policy, a common MGR was required for each residential rating category and all other rating categories within the policy. In determining MGRs, council is required to consider their overall approach to rating and their revenue target. The use of high MGRs has the effect of maximising the number of rateable properties that have the same rates charge. This represents a more uniform approach to rating and allows a council to easily predict the impact of changes to a rating charge on the majority of properties in a local government area.

Maximising the number of rateable properties that are subject to the MGR has the effect of increasing the amount of rates payable by people who own a property with a relatively low UCV, as well as reducing the rates payable on higher-value properties. Conversely, the use of a lower MGR reinforces the basic principle of valuation-based rating, that is, that owners of higher-valued residential properties should pay higher rates based on an increased capacity to pay.

As a result of amalgamation, not only was MBRC required to strike a balance between what was a fair and equitable MGR, but the council needed to be mindful of the divergent effects of setting MGRs for the first time under the new MBRC rating policy. These equity problems were inherent in every rating policy decision the council was required to make in developing the new MBRC rating policy, and it is important to note the political difficulties of this task.

Given these equity problems, the development of the new MBRC rating policy had varying political implications for councillors, depending on the location of their division in the region. Council ultimately set the MGR at \$660 for all residential owner occupied properties under the new MBRC rating policy. As a result, some ratepayers who were paying the MGR of \$827 as part of the former Caboolture Shire Council paid up to 25.3% less under the new formula. For councillors with divisions in this area, this was popular with property owners. However, in the former Pine Rivers Shire Council area, this MGR represented a rates increase of up to 18.1%. For the councillors with divisions in this area, this aspect of the MBRC rating policy represented a difficult political decision.

Amalgamation also created many equity problems relating to more operational aspects of council's rating policy. For example, Table 6.14 shows the disparity between the MBRC district policies in relation to interest on overdue rates in 2008/09 and 2009/10.

**Table 6.14 MBRC District Policies – Interest on Overdue Rates 2008/09 and 2009/10**

<b>MBRC District</b>	<b>Interest Rate (per annum)</b>	<b>Application of Interest</b>	<b>Billing Frequency</b>
Caboolture District	11.0%	Any rates not paid on the first day of the next financial year.	Annually in July
Pine Rivers District	11.0%	Any rates not paid at the beginning of the next quarter.	Quarterly
Redcliffe District	11.0%	Any rates that remained unpaid 7 days after the due date of the notice.	Bi-Annually in July & January
<b>MBRC (2009/10)</b>	<b>9.0%</b>	<b>Any rates not paid at the beginning of the next quarter.</b>	<b>Quarterly</b>

*Source:* MBRC (2008, pp. 57, 69, 92, MBRC 2009a, p. 90).

Table 6.14 shows that in 2008/09 the Caboolture district had the most generous interest on overdue rates policy, with ratepayers having the entire financial year to pay their annual rates bill prior to interest (11.0% per annum) being charged. In contrast, the MBRC consolidated policy in 2009/10 stated that ratepayers would incur interest charges (9.0% per annum) if their quarterly rates bill was not paid at the beginning of the next quarter.

Section 67 of the Local Government (Finance, Plan and Reporting) Regulation 2010 sets the upper limit for the interest rate that could be charged on overdue rates at 11.0%. As outlined above, for 2009/10 the council resolved to set the interest rate to be applied at 9.0% per annum. After a review of interest charges levied by other South East Queensland councils, MBRC further amended this policy for the 2010/11 financial year to an interest rate of 11.0%, with interest charges on overdue rates to commence seven days after the due date of the notice (MBRC 2010b, p. 91).

This example demonstrates that, although equity was achieved in 2009/10 with regard to interest on overdue rates, further refinement of this policy continued in 2010/11. Whilst this fine-tuning of MBRC's policies is to be expected in a newly amalgamated council, the real impact of amalgamations is that ratepayers are likely to be subject to changes in council policies for a number of years after amalgamation. Some of these

changes will continue to have significant effects on residents. For example, as mentioned above, a ratepayer in living in the Caboolture district in 2008/09 was required to pay rates in July 2008. If they did not pay by the due date, no interest was charged on any outstanding rates until 1 July 2009. Two years later, in 2010/11, that same ratepayer was required to pay rates quarterly and had an interest-free period on any outstanding rates of only seven days.

## **6.5 MBRC CORPORATE GOVERNANCE FRAMEWORK**

In addition to structural reform through forced amalgamations, the Queensland Government also introduced the new *Local Government Act 2009*. Section 6.5 uses the case-study approach to demonstrate the complexity of the task facing councillors and council officers when significant legislative reform is being implemented within a context of structural reform. In this case study, the impact of legislative reform on MBRC's corporate governance framework is critically evaluated within the context of a newly amalgamated council.

The LGAQ noted that 'Section 104 of the Act provides a framework for effective service delivery with a new focus. The community will become the driver of the long term strategies of council' (LGAQ 2010, p. 11). The key document identified by the Act designed to deliver this new focus is the Community Plan.

Under section 104 of the Local Government Act 2009, MBRC was required to prepare and adopt a long-term community plan. Section 104(4) of the Act describes the community plan as a document that:

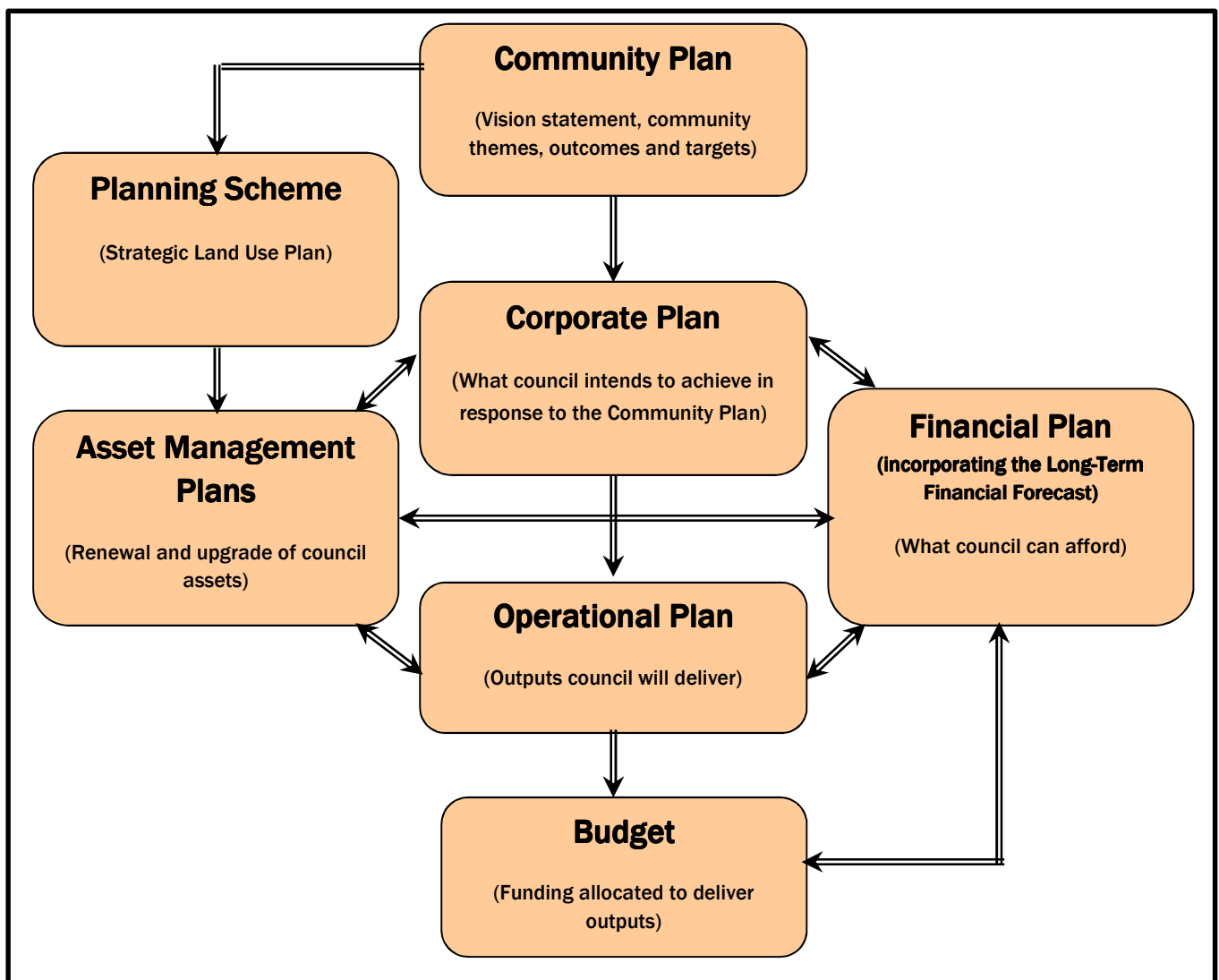
- (a) outlines the local government's goals, strategies and policies for implementing the local government's vision for the future of the local government area, during the period covered by the plan; and
- (b) covers a period of at least 10 years after the commencement of the plan.

In addition to this change in focus, council is required under Section 104(3) of the Act to prepare the following *planning and accountability documents* including the following:

- (a) an annual report;
- (b) a five-year corporate plan;
- (c) an annual operational plan;
- (d) a long-term community plan;
- (e) a financial plan;
- (f) a long-term asset management plan; and
- (g) a report on the results of an annual review of the implementation of the annual operational plan, five-year corporate plan and long-term community plan.

As a result of this change in focus and the requirements for councils to prepare the abovementioned documents based on the community plan, the newly amalgamated MBRC developed a new Integrated Corporate Reporting Structure (ICRS), shown in Figure 6.1.

**Figure 6.1 MBRC's Integrated Corporate Reporting Structure**



Source: MBRC (2011c, p. 50).



Table 6.15 summarises the purpose of these documents and the links between each one.

**Table 6.15 Purpose and Links for MBRC's Corporate Documents**

<b>Corporate Documents</b>	<b>Purpose</b>	<b>Core Links</b>
Community Plan	To describe council's ten-year vision for the future of the region.	<ul style="list-style-type: none"> <li>• Informs the planning scheme's strategic framework.</li> <li>• Establishes the strategic direction for council's corporate plan.</li> </ul>
Planning Scheme	To plan, manage and regulate land use across the region.	<ul style="list-style-type: none"> <li>• Informs asset management plans in relation to demand for assets associated with population growth.</li> </ul>
Corporate Plan	To describe what council intends to achieve over a five-year period.	<ul style="list-style-type: none"> <li>• Shows at a strategic level what council intends to achieve in relation to the renewal and upgrade of council assets.</li> <li>• Shows at a strategic level the financial implications of what council intends to achieve in order to inform the financial plan.</li> <li>• Links what council intends to achieve with the services delivered by council each year in the operational plan.</li> </ul>
Asset Management Plans	To plan for the renewal and upgrade of council assets over a ten-year period.	<ul style="list-style-type: none"> <li>• Informs the financial plan in relation to the costs associated with renewal and upgrade of council assets.</li> <li>• Guides what council intends to achieve in the corporate plan in relation to renewal and upgrade of council assets.</li> <li>• Guides council capital works program which is part of the operational plan.</li> </ul>
Financial Plan	To establish financial parameters for council's revenue, expenditure and debt levels over a ten-year period.	<ul style="list-style-type: none"> <li>• Establishes financial parameters for council's expenditure on renewal upgrade of assets.</li> <li>• Establishes financial parameters for what council intends to achieve in the corporate plan.</li> <li>• Establishes financial parameters for the delivery of council services each year in the operational plan.</li> <li>• Establishes financial parameters for council's annual budget.</li> </ul>
Operational Plan	To list the council services being delivered each year to action the corporate plan.	<ul style="list-style-type: none"> <li>• Links the delivery of council services each year with associated revenue and expenses in the budget.</li> </ul>
Budget	To plan and monitor council's revenue, expenditure and debt levels over a one-year period.	<ul style="list-style-type: none"> <li>• As stated above.</li> </ul>

Source: MBRC (2011e).

Table 6.15 illustrates that the Community Plan was to be MBRC's key strategic document outlining a ten-year vision for the future of the local government area. The Community Plan was the first of the planning and accountability documents to be prepared under this new legislative framework was council's first Community Plan.

Division 4 of the Local Government (Finance, Plans and Reporting) Regulation 2010 outlines the requirements for the long-term Community Plan. The Plan was developed using the following five phases, as per Section 125 of the Regulation:

- Phase 1: Intelligence gathering phase;
- Phase 2: Community input phase;
- Phase 3: Community vision phase;
- Phase 4: Community validation phase; and
- Phase 5: Policy and adoption phase.

The legislative requirements and key tasks for each of these phases are now described. Also included is a critical analysis of key issues encountered during each phase within the context of a newly amalgamated council. The requirements for Phase 1 of the project are listed in Table 6.16:

**Table 6.16 Phase 1: Intelligence Gathering Phase**

Relevant Paragraphs from Section 125 of the Regulation	Key Council Tasks
<p><i>The local government –</i></p> <p><i>(a) considers current and emerging trends, issues and relationships that affect the local government and the community; and</i></p> <p><i>(b) identifies key descriptive data about the community by gathering and analysing data obtained from surveys, focus groups and existing forecasts, plans and proposals; and</i></p> <p><i>(c) analyses and evaluates relevant internal data, external data and the key descriptive data; and</i></p> <p><i>(d) identifies areas for which more information is required.</i></p>	<ul style="list-style-type: none"> <li>• Summarise the demographic and socioeconomic trends affecting the Moreton Bay region into the future.</li> <li>• Review the state government’s key strategic land use planning document relating to the Moreton Bay region – South East Queensland Regional Plan.</li> <li>• Review MBRC’s existing plans, strategies and future programs.</li> <li>• Summarise all community engagement activities undertaken by council since its inception in order to not repeat this work and to draw on the conclusions and outcomes already collected.</li> </ul>

Source: Adapted from MBRC (2010d).

The newly amalgamated environment presented some unique challenges and opportunities for council during this phase, as outlined in Table 6.16. At the time of this information gathering phase, MBRC had been in existence for only approximately two-and-a-half years and work was just beginning in relation to developing a regional outlook on emerging demographic and socioeconomic trends and other descriptive data. For example, prior to the Community Plan project, MBRC had undertaken only one region-wide community engagement activity as an amalgamated council – a resident

satisfaction survey. Consequently, only limited data were available in terms of residents' views and opinions of the new council area. Identifying and documenting all the relevant regional issues for such a large and relatively new local government area required a practical, relevant, easy-to-understand, yet robust conceptual framework which would be a common theme throughout the project and could ultimately be used as the framework for the final Community Plan document.

MBRC's vision in the Corporate Plan is that the Moreton Bay region would become 'a region of opportunity where sustainable communities enjoy work, recreation and lifestyle' (MBRC 2009b, p. 6). It was determined by the council that the underlying theme of this statement was *liveability*, and that MBRC's community plan should be focussed on maintaining and improving the liveability of the region. Conceptualising what was meant by the term *liveability* and determining how to measure the liveability in the Moreton Bay region presented some difficulties. Woolcock (n.d, p. 1) noted that 'to date, there is not established theoretical framework or uniform definition of liveability'.

In determining how MBRC would define the term '*liveability*', council officers were guided by the following generic definitions:

'... [Urban liveability] is generally understood to encompass those elements of home, neighbourhood, and metropolitan area that contribute to safety, economic opportunities and welfare, health, convenience, mobility, and recreation' (Vuchic 1999, p. 7).

'Liveability reflects the wellbeing of a community and comprises the many characteristics that make a location a place people want to live in now and in the future' (Victorian Competition and Efficiency Commission 2008, p. 37).

Based on these definitions, a series of factsheets were prepared on a number of topics (Table 6.17) as the key outcome of the intelligence gathering phase.

**Table 6.17 Key Outcomes of the Intelligence-Gathering Phase**

<b>Factsheet Number</b>	<b>Topic</b>
1	Strong local business and local job opportunities
2	Protecting the natural environment
3	High quality local government decision making and service delivery
4	Population growth and housing
5	Safe neighbourhoods
6	Health services
7	Education and training
8	Recreation and lifestyle
9	Strong and supportive communities
10	Access to broadband internet
11	Transport demand and infrastructure
12	A learning and engaged community
13	Reducing our impact on the environment

Source: MBRC (2011a).

Not only were these factsheets the genesis of MBRC's conceptual framework for the Community Plan, they provided it with a valuable corporate resource that documented, in a concise and accessible format, key trends and themes related to the current and future liveability of the Moreton Bay region. The information collected as part of the intelligence phase directly informed the community input phase. The requirements of this phase are outlined in Table 6.18:

**Table 6.18 Phase 2: Community Input Phase**

<b>Relevant Paragraphs from Section 125 of the Regulation</b>	<b>Key Council Tasks</b>
<i>The local government engages with the community, in a way that is consistent with the community engagement policy, to identify and prioritise the planning themes on which the development of the long-term community plan is based.</i>	<ul style="list-style-type: none"> <li>• Conceptualise the term 'planning themes'</li> <li>• Develop and undertake communication activities (media releases, news articles, advertisements in local papers, 1800 project telephone number, articles in councillor newsletters, stories in council's community publication 'Moreton Living')</li> <li>• Develop and conduct the community survey</li> </ul>

Source: Adapted from MBRC (2010d).

One of the key tasks in the phase, as listed in Table 6.18, was to conceptualise the term ‘planning themes’ as the legislation did not provide any definition for this term. In the absence of a statutory definition, MBRC considered planning themes to be ‘factors that influence liveability in the Moreton Bay Region’ (as noted earlier). The planning themes were essentially a refinement of the ‘topics’ listed in Table 6.17 and were categorised under one of the following local and regional issues as outlined in the Regulation (Section 127):

- Economic development;
- Environmental management;
- Governance; and
- Social wellbeing.

Identified planning themes for the MBRC community plan project are summarised in Table 6.19.

**Table 6.19 MBRC Planning Themes by Local and Regional Issues**

Local and Regional Issues	Planning Themes
Economic development	<ul style="list-style-type: none"> <li>• Business and economic activity</li> </ul>
Environmental management	<ul style="list-style-type: none"> <li>• Natural environment</li> <li>• Pollution</li> <li>• Waste management</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Local Government decision making and service delivery</li> </ul>
Social wellbeing	<ul style="list-style-type: none"> <li>• Housing</li> <li>• Population growth</li> <li>• Safe neighbourhoods</li> <li>• Health and community support services</li> <li>• Education and training opportunities</li> <li>• Public transport</li> <li>• Traffic congestion</li> <li>• Parks, sport and recreation activities</li> <li>• Art and cultural activities</li> <li>• Community pride</li> <li>• Volunteering/community participation</li> <li>• High speed internet</li> <li>• Roads and other public infrastructure</li> <li>• Libraries and other community facilities</li> </ul>

*Source:* Adapted from MBRC (2010d).

The core purpose of the Community Survey was to prioritise the planning themes identified in Table 6.19, identify other planning themes and describe a vision for the future of the region. Maximising community participation in the Community Survey

was critical to the success of the Community Plan project. A robust sample size was required to maximise the legitimacy of the Final Community Plan document.

The survey was administered as follows. In developing the survey instrument, a pilot of the survey was conducted online with council staff. This contributed to ensuring the effectiveness of the survey, provided an opportunity for officers to suggest improvements and collected valuable information from staff to inform the development of the Community Plan. Council officers also administered the survey in high schools and youth agencies. The survey was administered both online and in hardcopy format. Table 6.20 below summaries how the community survey was then administered in the wider community.

**Table 6.20 Administration of MBRC Community Plan Survey**

<b>Community Survey Administration Techniques</b>	<b>Description</b>
Online (through council's website)	Council encouraged people to complete the survey online through council's website. An incentive to encourage residents to take up this option was the chance to win one of ten \$500 cash prizes. Full terms and conditions in relation to these incentives were provided to residents prior to completing the survey online. Councillors, council staff and their immediate family members were not eligible to win a prize.
Library workshops	Workshops were held in council libraries to assist people without access to the internet to complete the survey online.
Shopping centres	People were also able to complete the survey online through staffed displays at the shopping centres.
Council's community publication 'Moreton Living' and the 1800 project telephone number	The survey was also included an edition of Moreton Living which is delivered to every household in the region. People were also given the opportunity to contact a 1800 project number to complete the survey over the telephone.
Other initiatives	Various council officers have regular contact with business and community groups in their day to day work. Officers were encouraged to provide opportunities for business owners and community group members to complete the survey where appropriate.

*Source:* Adapted from MBRC (2010d).

Table 6.20 demonstrates that residents were provided with an incentive and various opportunities to complete the survey, in order to maximise the survey response rate. Question 6, outlined in Table 6.21, represents the substantive question regarding liveability of the Moreton Bay region.

**Table 6.21 Question 6: MBRC Community Plan Survey**

<p><b>6. What will make the Moreton Bay Region a place you want to live in over the next 10 years?</b> (Please tick up to 10 of the following options. Selection of more than 10 options will not be accepted. The options listed are in no particular order)</p> <ul style="list-style-type: none"> <li>• Low levels of pollution and greenhouse gas emissions</li> <li>• High quality roads and limited traffic congestion</li> <li>• Easy access to health services</li> <li>• High quality local government decision making and service delivery</li> <li>• Local job opportunities</li> <li>• Easy access to cultural activities and events</li> <li>• A healthy natural environment</li> <li>• Affordable and diverse housing choices</li> <li>• Safe neighbourhoods</li> <li>• A reduction in the amount of waste going into the environment</li> <li>• Easy access to parks, sport and recreation activities</li> <li>• Strong local business</li> <li>• Effective planning by governments for population growth</li> <li>• Easy access to libraries and other community facilities</li> <li>• Being able to get where you want to go easily using public transport</li> <li>• Active volunteer groups supporting the community</li> <li>• Easy access to schools and higher education</li> <li>• Availability of high speed internet</li> <li>• A strong sense of community pride</li> <li>• Easy access to community support services (e.g. counselling services)</li> </ul>
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Source: MBRC (2011b).

Table 6.21 illustrates the links between the options in question 6 and the planning themes in Table 6.19.

It can be argued that amalgamation had an impact on the response rate for this survey. In 2005, the former Redcliffe City Council undertook a similar survey in order to develop its first Community Plan. At that time, Redcliffe City Council received a total of 5,791 responses to their survey (or 11.2% of the population) (Redcliffe City Council 2005, p. 29). In 2011, MBRC, incorporating the former Redcliffe City Council, and with a population approximately seven times larger, received a total of 4,520 responses (1.2% of the total population). This reduction in the response rate can be explained using the '*community of interest*' concept as it relates to local government boundaries (Fulcher 1989). Fulcher (1989, p. 2) defined the perceptual dimension of community of interest as 'a sense of belonging to an area or locality which can be clearly defined'. This sense of belonging was evident based on the boundaries of the former Redcliffe City Council as demonstrated by its community's reaction to amalgamation described earlier in Section 6.3. It is widely accepted that people are more likely to engage in community consultation activities if this sense of belonging is strong. Whilst the

comparatively lower response rate for the MBRC community plan survey could have been due to a range of factors, it is reasonable to assume that, given its size and population, residents did not have a strong sense of belonging consistent with the MBRC boundaries and therefore residents did not engage in the MBRC community plan survey. Furthermore, it can also be argued that residents had not yet had sufficient time in the two-and-a-half years since amalgamation to develop a sense of belonging to the new council area. Despite this comparatively low response rate, the ten most popular responses to question 6 (as listed above) were as follows:

1. Safe neighbourhoods
2. High quality roads and limited traffic congestion
3. A healthy natural environment
4. Being able to get where you want to go easily using public transport
5. Easy access to health services
6. Local job opportunities
7. Easy access to parks, sport and recreation activities
8. Low levels of pollution and greenhouse gas emissions
9. Availability of high speed internet
10. Effective planning by governments for population growth (MBRC 2011b).

These responses formed the basis of council community vision for the future of the Moreton Bay region, which was prepared as part of Phase 3, outlined in Table 6.22.

**Table 6.22 Phase 3: Community Vision Phase**

Relevant Paragraphs from Section 125 of the Regulation	Key Council Tasks
<i>The local government develops its vision for the future of the local government having regard to its engagement with the community.</i>	<ul style="list-style-type: none"> <li>Develop the draft community plan based on the findings of the community input and intelligence gathering phases.</li> </ul>

*Source:* Adapted from MBRC (2010d).

Amalgamation provided an opportunity for council and council officers to approach the task of preparing a vision for the region, as outlined in Table 6.22, without the restraints of an existing organisational culture or predefined approach to this type of planning. This provided council officers with the opportunity to structure the ‘vision’ for the MBRC draft Community Plan differently to what is typically expected when this term is



used. Officers deliberately developed a vision whereby progress towards this vision could be monitored and quantitatively measured. To this end, MBRC's 'vision' for the region was made up of the components listed in Table 6.23.

**Table 6.23 Structure of the MBRC Community Plan Vision**

<b>Vision Component</b>	<b>Description</b>
Vision statement	Short concise statement describing the preferred future of the Moreton Bay Region.
Community themes	Conceptual links between the vision statement and the community outcomes.
Community outcomes	'Goals the council, other levels of government, community and business groups will be working towards to achieve the vision statement.'
Community targets	'An expression of the community outcomes in measurable terms'.

Source: Adapted from MBRC (2011d, p. 11/1981).

Using the structure outlined in Table 6.23, the MBRC community plan contained one short vision statement, '*A thriving region of opportunity where our communities enjoy a vibrant lifestyle*', three community themes, nine community outcomes and 29 community targets linked directly to the survey outcomes (MBRC 2011c, p. 3). Given the structure of the Community Plan, progress towards achieving these targets can be easily monitored over the next ten years as per the requirements of the regulation.

For example, Table 6.24 contains an extract of text from Target 1 of the MBRC Community Plan. Target 1 aims to measure progress under the community outcome of: '*Local Jobs for Residents: By 2021 our vibrant and sustainable business and industry sectors will be employing well-trained and suitably qualified local residents*' which forms part of the community theme: '*Creating Opportunities*' in the MBRC community plan (MBRC 2011c, p. 4).

**Table 6.24 MBRC Target 1: Increase the Overall Value of the Regional Economy**

Target 1	Increase the overall value of the regional economy
Measure	Gross Regional Product (size or net wealth generated by the regional economy).
Source	Moreton Bay Regional Council.
Lead agencies	<ul style="list-style-type: none"> <li>• Industry and business.</li> <li>• Department of Employment, Economic Development and Innovation.</li> <li>• Regional Development Australia Moreton Bay.</li> <li>• Moreton Bay Regional Council.</li> </ul>
Risks	<ul style="list-style-type: none"> <li>• State of the domestic and overseas economies.</li> <li>• Varying demand for new industry and business sectors.</li> <li>• Availability of suitably qualified workers.</li> <li>• Lack of available land and suitable infrastructure for business.</li> </ul>
Opportunities	<ul style="list-style-type: none"> <li>• Strong projected population growth resulting in high demand for key industry sectors.</li> <li>• Proximity to major export infrastructure including ports and airports.</li> <li>• Diverse business and industry base.</li> <li>• Increase land supply for business and commercial purposes.</li> <li>• Investigate the potential for tourism to become a growth industry in the regional economy.</li> </ul>
First steps	Moreton Bay Regional Council Economic Development Strategy.
Baseline data	Headline gross regional product (size of the local economy before taxes and dividends) 2009/10: \$9,817M.
Reporting progress	Report on headline gross regional product each year from Moreton Bay Regional Council (economy.id) publication.

Source: MBRC (2011c, p. 9).

Opportunity was then provided for the community and other key stakeholders to review the draft community plan document and provide comment and feedback to council as part of the community validation phase described in Table 6.25.

**Table 6.25 Phase 4: Community Validation Phase**

Relevant Paragraphs from Section 125 of the Regulation	Key Council Tasks
<p><i>The local government –</i></p> <p><i>(a) reviews the vision for the local government area</i></p> <p><i>(b) prepares a draft long-term community plan; and</i></p> <p><i>(c) engages with the community about its vision for the local government area, the planning themes on which the development of the long-term community plan is based and the draft long-term community plan.</i></p>	<ul style="list-style-type: none"> <li>• Develop and undertake communication activities (media releases, news articles, advertisements in local papers, 1800 project telephone number, articles in councillor newsletters, stories in council's community publication 'Moreton Living').</li> <li>• Conduct public consultation forums across the Moreton Bay region to display the draft community plan.</li> <li>• Post the draft community plan on council's website for community feedback.</li> <li>• Review of the comments received from the public consultation forums and councils website.</li> <li>• Amend the draft community plan where appropriate and prepare the final community plan.</li> </ul>

Source: Adapted from MBRC (2010d).

It is interesting to note that only 190 people attended the eight public consultation forums conducted across the region as part of the community validation phase outlined in Table 6.25. Of those who did attend, very few commented on the draft Community Plan document but took the opportunity to discuss issues affecting their local area with councillors and/or council officers. Dallinger and Dollery (2008, pp. 40–41) highlighted this issue as a key risk when using community visioning as the basis for council's corporate documents:

For example, the quality of a community vision becomes largely dependent on those who participate in project activities' and their approach to a project like the MBRC community plan 'may be quite short-term and specific to their own experience, rather than being altruistic in nature ...'

Some council officers involved in the consultation forums provided feedback to council officers working on the Community Plan document: that the lack of support for these community engagement activities was because residents did not consider the community plan project to be relevant to them. This challenges the general notion that communities increasingly want to participate in local governance activities. Perhaps it is more accurate to suggest that community support for processes associated with participatory democracy is strongest when the issue at hand directly affects the liveability of a resident's immediate area in tangible ways.

This finding presents challenges for large amalgamated councils in South East Queensland. How can the long-term strategies of council be truly driven by the local community (as the LGAQ asserts is required by the *Local Government Act 2009*)? Long-term strategies of council are typically developed at the whole-of-council level and, as the MBRC Community Plan project demonstrates, there may be limited community interest in participatory democracy at this level. One option to resolve this problem is to plan at the whole-of-council level, but engage at the local neighbourhood level. The difficulties associated with this approach include the cost and time associated with many community consultation activities, and the capacity to truly represent all local issues of interest to residents in a Community Plan for a council area with a population like that of MBRC (i.e. approximately 378,000).

Council's tasks in phase 5, to finalise the MBRC Community Plan, are summarised in Table 6.26.

**Table 6.26 Phase 5: Policy and Adoption Phase**

Relevant Paragraphs from Section 125 of the Regulation	Key Council Tasks
<i>The local government – (a) considers the impact of the draft long-term community plan on its long-term financial forecast, financial plan, and long term asset management plan; and (b) finalises and adopts the long-term community plan.</i>	<ul style="list-style-type: none"> <li>• Review council's corporate governance framework to determine the relationship between the community plan, and all other strategic corporate documents.</li> <li>• Adopt the final community plan at a council meeting.</li> </ul>

Source: Adapted from MBRC (2010d).

Following the legislative requirements outlined in Table 6.26, council began the process of determining the impact of the Community Plan on other key planning and accountability through the council's Integrated Corporate Reporting Structure (Figure 6.1). Council formally adopted its first Community Plan in October 2011.

## 6.6 POST-AMALGAMATION STRUCTURAL REFORM PROBLEMS

Despite the LGRC 'not identify[ing] any major ongoing boundary issues' in 2007, as noted in Table 6.5, four years after the decision to create MBRC, residents and business owners in the region began to lobby for the de-amalgamation of the former Redcliffe City council area and for a boundary adjustment to transfer a number of suburbs to Brisbane City.

In early 2011, a small group known as the *De-amalgamation Community Alliance* began an organised campaign to lobby the state government to de-amalgamate the former Redcliffe City council area from MBRC. In response to this growing community sentiment, MBRC commissioned an 'independent study' into the financial impact of de-amalgamation. The key outcomes of its report, *Analysis of Redcliffe De-Amalgamation Ratepayer Impacts* (Spearritt 2011, pp. 2–3) were:

- Re-establishing Redcliffe City Council would put upward pressure on rates in the remaining MBRC as '18 per cent of the total MBRC rates revenue is sourced from' the Redcliffe City Council area'.

- Re-establishing Redcliffe City Council ‘could cost between \$2.7 million and \$7.9 million up-front’.
- Ongoing councillor costs for the new Redcliffe City Council ‘are likely to be in the order of \$750,000 to \$1 million per year’.
- The new Redcliffe City Council would be required to spend ‘in the order of \$3.6 to 4.8 million per year’ on ‘additional ongoing executive staff costs’.
- A total of 21 full-time officer positions would be required by the new Redcliffe City Council in addition to those that would be transferred from the current MBRC at de-amalgamation which ‘equates to \$1.7 million in additional staff costs’ for the new Redcliffe City Council.
- The ‘Redcliffe Rail Link’ is being funded in part by a \$105 million contribution over six years by MBRC. ‘If apportioned on the population shares in the rail corridor, [the new Redcliffe City Council] would need to contribute \$46 million over 6 years’.
- Once established, the new Redcliffe City Council would need to ‘impose and immediate rate increase of between 37% and 56%’ to fund the abovementioned costs.

The report did note that some of these costs may be spread over a number of years, but it maintained that ‘a significant immediate rate increase would still be required’ (Spearritt 2011, p. 3). The release of this report stimulated further debate in the local community about the matter and questions were raised about the costs involved. A chief executive officer of the former Redcliffe City Council, in an article published in the local newspaper, stated that ‘its [the MBRC report] financial findings are far from convincing ... certainly there would be costs involved in de-amalgamation, but there is no reason that these should be out of reach nor able to be spread over several budgets ... I had reluctantly accepted unscrambling the egg [de-amalgamation] might be too difficult to achieve. Now I’m not so sure ... The so-called economies of scale promised by the amalgamation haven’t materialised ... and they never will’ (Brady 2011, p. 8).

In a local newspaper advertisement this *De-amalgamation Community Alliance* outlined its key arguments for de-amalgamation, summarised in Table 6.27.

**Table 6.27 Community Arguments for De-amalgamation**

Issue	Rationale
Bigger does not mean better	The community is yet to see benefits of the larger amalgamated council.
Our rates have increased dramatically	Rates bills are more expensive than in the former Redcliffe City Council.
Our water costs have skyrocketed	Water charges have increased by 66%: 'This is the largest increase that has ever been experienced in QLD.'
Loss of our local council services	The transfer of council staff, formerly located in Redcliffe, to the administration buildings in the Pine Rivers and Caboolture areas has adversely affected Redcliffe residents' access to some council services.
Tennants in Redcliffe pay higher rents	As a result of the MBRC's consolidated approach to rating, rents in Redcliffe have increased due to non-owner occupied properties being charged a higher general rate.
Maintenance standards have declined	Service levels have reduced in relation to the maintenance of public facilities stating that 'these standards have declined dramatically under the new MBRC with the overall appearance and upkeep of the city suffering as a result.'
Promotion of Redcliffe has ceased	Council no longer promotes Redcliffe as a tourist destination.
Financial stability lost	The former Redcliffe City Council was more financially secure than MBRC.
No long term plans for the city	No specific planning exists for the Redcliffe area in response to 'economic, unemployment, poverty and growth problems.'
Diminished care factor	Only two of the 12 MBRC councillors represent the interests of Redcliffe. 'Therefore, 10 councillors have little or no knowledge of what happens to, or in, Redcliffe.'

Source: Adapted from 'Free Redcliffe: Ten Facts That Can't Be Ignored' (2011, p. 8).

It is important to note that the *De-amalgamation Community Alliance* misrepresented some of the facts in this advertisement, summarised in Table 6.27. For example, the claimed increases in water costs are the result of an additional functional reform process being undertaken simultaneously with amalgamations. The stated cost increases are not the result of decisions by MBRC.

The arrangements for the supply of water and sewerage services to households and businesses in MBRC and Sunshine Coast Regional Council (SCRC) areas changed with the establishment of Unitywater on 1 July 2010. Unitywater is one of three statutory bodies established under Queensland Government legislation (South East Queensland Water (Distribution and Retail Restructuring) Act 2009) as a distributor-retailer business to supply water and sewerage services to households and businesses. The three distribution-retailers in South East Queensland (SEQ) are:

- Unitywater (Moreton Bay and Sunshine Coast)
- Queensland Urban Utilities (Brisbane, Ipswich, Scenic Rim, Somerset and Lockyer Valley)
- Allconnex Water (Gold Coast, Logan and Redlands).

Unitywater now provides the following water supply and sewerage services to the MBRC and SCRC community:

- supplies water to residents and businesses
- collects, treat and disposes of sewage
- operates sewage treatment plants and pumping stations
- manages and maintains water supply and sewerage infrastructure and assets
- issues and manages new water supply and sewerage accounts for residential and business customers (Unitywater 2012).

Under the 2009 Act, MBRC and SCRC are *participants* in Unitywater. Whilst this is similar to being a shareholder, as *participants*, MBRC and SCRC do not have the power to vote on matters, or have any say in the running of the business (including pricing).

The Act requires that an independent board of directors be responsible for the way Unitywater performs its functions and exercises its powers. No councillors are permitted to be on the board. Under the Act, each council transferred ownership of their water and sewerage assets (local reservoirs, pipe networks, pumps, sewage treatment plants, etc.) to Unitywater.

The bulk water price is set by the Queensland Government. The bulk water price reflects the costs associated with providing infrastructure to establish the South East Queensland water grid. The water grid aims to ensure security of water supply throughout south-east Queensland. The Queensland Government sells bulk water to Unitywater. The Act requires that the Unitywater board of directors set the retail price for the supply of water and sewerage services. A statutory framework was provided by the Queensland Government's Queensland Competition Authority to guide Unitywater in determining the retail price. Neither MBRC nor SCRC is involved in determining the retail price for the supply of water and sewerage services.

This demonstrates again the complex reform environment Queensland councils and their communities are attempting to negotiate in addition to amalgamations. It also demonstrates that ratepayers are not fully informed about issues that may have significant political implications for newly amalgamated councils. If there is a general

perception in the community that significant water price increases are the result of council decisions rather than the reform agenda of the Queensland Government, councils may inadvertently be held accountable at elections.

It should be noted that the Liberal National Party leader and former Brisbane City Council Mayor Campbell Newman visited Redcliffe in September 2011 in preparation for the 2012 election. During his visit, he stated that ‘he would offer residents the chance to review the issue of de-amalgamation by appointing a boundary review commissioner to evaluate costs of de-amalgamating’ (Councils, rail tops LNP talks 2011, p. 3). Subsequent to the election of the Newman state government, the issue of de-amalgamation also emerged in the former Caboolture Shire Council area in the northern part of Moreton Bay Region. Whilst de-amalgamation in Caboolture did not have the same high public profile than in Redcliffe, a community group was formed known as *Reclaim Caboolture Shire Inc.* The group described the formation of MBRC as ‘An undemocratically forced amalgamation of the three Shires [Caboolture Shire, Pine Rivers Shire and Redcliffe City]’ and the group continues to lobby the state government for the de-amalgamation of the former Caboolture Shire Council area from MBRC (Reclaim Caboolture Shire Inc. 2013). There is limited guidance for governments and policy makers about undertaking de-amalgamations. Dollery, Kortt and Grant (2011, p. 607) have developed a ‘normative model’ consisting of five ‘key ingredients involved in a de-merger process’. A summary of these concepts and how they might apply to the de-amalgamation of the former Redcliffe City Council area from MBRC are listed in Table 6.28.

From Table 6.28, it can be argued that a compelling case and sound process for the de-amalgamation of the former Redcliffe City Council area from MBRC is yet to be realised. As de-amalgamation was being debated in the northern and eastern part of Moreton Bay Region, in the southern part of the council area a public meeting was held in October 2011 concerning a council boundary adjustment. The proposal was for three suburbs on the border of MBRC and Brisbane City Council to be transferred to Brisbane City Council. The local newspaper described the public meeting as follows:

A battle for border change has been launched by residents of the Hills District to break ties with Moreton Bay and join Brisbane City Council in protest of high rates and poor infrastructure in the area’. The article goes on to state that ‘Moreton Bay Regional Council has blamed amalgamation for community unrest about government boundaries (Ludgate 2011, p. 5).



The key observation from this postscript to the structural, legislative and functional reforms discussed above is that the LGRC may represent the beginning of ‘an era of reform’ for local government in some parts of Queensland. Issues resulting from amalgamation in places like the Moreton Bay Region are being further compounded by small community groups lobbying for further structural reform. If these groups are successful then councils such as MBRC could potentially become involved in protracted state government processes to determine the merits of proposals such as de-amalgamation and boundary adjustments.

**Table 6.28 De-amalgamation Process and Principles**

Process/Principle	Description
De-amalgamated entities should be carefully designed.	The reinstatement of the former Redcliffe City Council with the same pre-amalgamation boundaries does not mean a return to the former status quo. The new Redcliffe City Council would be a new organisation and should meet ‘reasonable standards of coherence: such as enjoying substantial local political support, comparatively low transaction and transformational costs, and ongoing prospects of financial viability’ (Dollery, Kortt and Grant 2011, p. 608). For example, the financial viability of a new Redcliffe City Council may be affected by the new institutional arrangements for water and sewerage services.
De-amalgamation proposals must command demonstrable community support.	The existence of the <i>De-amalgamation Community Alliance</i> in Redcliffe is not an adequate measure of community support for de-amalgamation. Dollery, Kortt and Grant (2011, pp. 608, 609) stated that community opinion in relation to a de-amalgamation should be canvassed using a ‘formal process’ and should be done in a ‘procedurally sound manner’. They also stated that any de-amalgamation proposal should have ‘a demonstrable degree of political support in the affected local communities’.
New entities must be viable.	Any proposal for a new Redcliffe City Council should pass a sustainability test giving due consideration to the following attributes of overall council sustainability: vibrancy of local democracy, local social capital and local government capacity (Dollery, Crase and Grant 2011, p. 166).
Transaction costs and transformation cost must be minimised.	De-amalgamation of former Redcliffe City Council area from MBRC must not be too costly. Dollery, Kortt and Grant (2011, p. 610) stated that ‘not only is this question of considerable importance to protagonists in the debate surrounding the desirability of any demerge, but it would be vital for state politicians as well as Department of Local Government policy makers’.
Potential sources of conflict must be minimised.	In practice, unscrambling the egg (de-amalgamation) would require many decisions to be made regarding ‘the distribution of post de-amalgamation assets, debt, endowments, investments and the like’ (Dollery, Kortt and Grant 2011, pp. 611–612). Decision-makers would be required to establish transparent and equitable processes and criteria for these decisions in order to minimise conflict and to ensure the integrity of any de-amalgamation process.

*Source:* Adapted from Dollery, Kortt and Grant (2011, pp. 607–612).

## **6.7 CONCLUDING REMARKS**

This chapter has described ‘a perfect storm’ of local government reform in Queensland. It discussed the process of forced amalgamations implemented by the Queensland Government’s LGRC and the implementation of the new Local Government Act 2009. It presented a case study of the newly formed MBRC and critically evaluated examples of the complex political and operational issues resulting from these significant reforms, i.e. a consolidated rating policy and new corporate governance framework for MBRC. Whilst the forced amalgamations imposed on councils by the LGRC and the new Local Government Act 2009 have been the central feature of contemporary local government reform in Queensland, many other reform processes such as water reform are shaping a completely new local government landscape. The MBRC example demonstrates that another episode in the structural reform story is yet to be written, with calls for de-amalgamation and significant boundary changes from local communities within the Moreton Bay region. It also demonstrates the impacts of local government reform are ongoing, and that they have a ripple effect over time. Chapter 7 continues to analyse the impacts of forced amalgamations in Queensland using MBRC as a case study by evaluating the development of MBRC’s consolidated approach to asset management and land tenure.



## **7. CONTEMPORARY LOCAL GOVERNMENT REFORM IN QUEENSLAND: A CASE STUDY OF MORETON BAY REGIONAL COUNCIL (MBRC) PART 2**

### **7.1 INTRODUCTION**

Chapter 6 introduced MBRC and some of the political and operational complexities associated with involuntary amalgamations, describing the creation of a consolidated rating policy and governance framework for this newly amalgamated council. This chapter continues the case study approach by critically evaluating the development of MBRC's consolidated approach to asset management and land tenure. Asset management, in particular the nation's infrastructure backlog, and the associated fiscal stress experienced by council have received considerable attention from policy makers. Industry groups and local government practitioners have also developed best-practice guidelines and manuals for undertaking asset management tasks within the context of local government. What is yet to be considered is how involuntary amalgamations affect the task of asset management. Similarly, few empirical studies have investigated how land tenure affects a newly amalgamated council's delivery of recreation and sporting services as well as community facilities.

This chapter is divided into eight main parts. Section 7.2 describes the national and state policy context of asset management in local government, including the contribution by various industry groups to asset management practices. The approach to asset management varied greatly in the former Caboolture Shire Council, Pine Rivers Shire Council and Redcliffe City Council. Section 7.3 outlines MBRC's consolidated approach to asset management and critically evaluates the impact of amalgamation on the implementation of best practice in asset management across the organisation. Section 7.4 introduces land tenure. In a similar way to asset management, the former councils had different lease agreements with sporting and community groups, including arrangements for the maintenance of facilities, funding and other financial support. Section 7.5 explores in detail the legal, financial and service delivery complexities associated with land tenure reform resulting from forced amalgamations with a view to highlighting some of the 'hidden impacts' of amalgamation. Section 7.6 critically

appraises the value of amalgamation on council service delivery, using this case study as an example. The chapter ends with some brief concluding remarks in Section 7.7.

## **7.2 ASSET MANAGEMENT POLICY CONTEXT**

### **7.2.1 NATIONAL POLICY CONTEXT**

Chapter 2 detailed the fiscal stress experienced by local governments across Australia due to a range of factors including the ‘local infrastructure crisis’. Dollery, Grant and Kortt (2012, p. 18) contended that:

[N]umerous councils have been reluctant to set their rates and other fees and charges at realistic and sustainable levels. Given these monetary pressures, it is no exaggeration that existing arrangements have only been maintained at the cost of steadily depreciating physical infrastructure, which obviously has ominous long-run implications.

Furthermore, Chapter 3 explored in detail the various federal and state inquiries into local government sustainability. These inquiries considered the financing and funding issues associated with ‘catching up’ and ‘keeping pace’ with community demand for infrastructure within the context of how this issue will impact on the financial sustainability of local governments into the future. In the *Australian Council of Local Government (ACLG) Information Paper Asset Management and Financial Planning* it is noted that:

The \$2.16 billion annual underspend on infrastructure renewal identified in the PricewaterhouseCoopers report [*National Financial Sustainability Study of Local Government*], equates to eight per cent of 2007-08 aggregate local government income of \$27.1 billion. This is a sharp reminder of the urgency of the challenge to improve strategic level financial planning and asset management, which remains vital for sustainable, well managed local government’ (Australian Council of Local Government 2012, p. 1).

As noted in Chapter 2, the underfunding of infrastructure has been in part attributed to poor asset management processes. Dollery, Byrnes and Crase (2007b, pp. 8–9) pointed out that ‘asset measurement and reporting in most local authorities is so bad as to render efforts to accurately measure the extent of the local infrastructure crisis almost impossible’ and this is due to ‘conceptual and empirical difficulties in local asset assessment [and] many municipalities simply lack the requisite technical skills to cope with these difficulties’. Improving asset management processes was established as a national policy issue in 2009 when the Local Government and Planning Ministers’

Council (LGPMC) established a *Local Government Financial Sustainability Nationally Consistent Framework (Framework 2) for Asset Planning and Management* (also known as the *Enhanced National Framework on Asset Planning and Management*). The aim was to for state and territory governments to implement this national framework with local governments by December 2010. Table 7.1 summarises the elements of this national framework.

**Table 7.1 Elements of the National Asset Management Framework**

Elements	Description
Development of an asset management policy	An asset management policy/statement is to be developed by each state and territory to act as a policy framework for asset management in local government that will also guide councils in the development of their asset management policy.
Strategy and planning	Councils' asset management strategy should outline how a council intends to implement its asset management policy. The strategy should also describe 'how their asset portfolio will meet the service delivery needs of their communities into the future'. Council's asset management strategy should also be integrated with other long term strategic plans of council.
Governance and management arrangements	Good governance and management arrangements should form part of councils' approach to asset management and link asset management to service delivery.
Defining levels of service	States and territories are to develop mechanisms that ensure councils define the levels of service they expect to provide from their asset base.
Data and systems	Asset management data is a key element of councils' approach to asset management so that performance can be measured over time and infrastructure funding gaps can be identified. Asset management data also enable councils to compare their performance with other councils. A continuous improvement approach to asset management financial data is important 'particularly in relation to capital expenditure and the allocations between maintenance, renewal and upgrade'.
Skills and processes	A continuous improvement approach to asset management in general is encouraged through: <ul style="list-style-type: none"> <li>• A 'whole of organisation' approach to asset management;</li> <li>• Training programs for councillors and council officers in relation to asset management 'in partnership with peak bodies and agencies'; and</li> <li>• Best-practice guides in order to improve council practices in condition assessment, valuation of assets and accounting treatment.</li> </ul>
Evaluation	Councils' approach to asset management should feature 'a mechanism which measures its effectiveness including the asset management programs and initiatives implemented'.

*Source:* Adapted from Australian Council of Local Government (2012, pp. 3–5).

In conjunction with the National Asset Planning and Management framework summarised in Table 7.1, the federal government also established the Local Government Reform Fund (LGRF). The objectives of this fund were to:

- Support the accelerated implementation of the Nationally Consistent Frameworks for local government asset and financial management, as agreed by the Local Government and Planning Ministers' Council in 2009;
  - Encourage collaboration in the local government sector to build capacity and resilience; and
  - Improve the collection and analysis of nationally consistent data on local government assets and finances.
- (Federal Government Department of Regional Australia, Local Government, Arts and Sport 2012)

The questions of financial sustainability and infrastructure provision have been considered most recently at the national level in the 2012 Ernst & Young report *Strong foundations for sustainable local infrastructure - Connecting communities, projects, finance and funds*. Although this report is primarily about financing and funding of infrastructure, some of Ernst & Young's key findings and recommendations relate to asset management practices, such as:

*Key finding:*

The Nationally Consistent Frameworks for local government asset and financial management - and associated programs such as the Local Government Reform Fund - have succeeded in creating momentum for improvement and a good return on the investment in capability building. However, current capacity varies widely and there is a clear need to sustain support (Ernst & Young, 2012, p. 43).

*Recommendations 4 and 5:*

*Recommendation 4: Capability building programs*

Programs of targeted training and capability building in asset and financial management should be extended.

*Recommendation 5: Review of asset and financial management practices*

Asset and financial management reform initiatives should be supplemented by periodic independent reviews of the implementation of the Nationally Consistent Frameworks (Ernst & Young, 2012, p. 43).

The Ernst & Young report also makes reference to the state policy context, which is discussed in detail in the next section.

## 7.2.2 STATE POLICY CONTEXT

### Legislation

Ernst & Young (2012, p. 44) contended that 'a key focus of the Nationally Consistent Frameworks is long-term financial sustainability' and that local government should be using long-term financial sustainability as 'a point of reference for decisions relating to infrastructure provision'. Ernst & Young (2012, p. 44) also noted the relevance of the

following definition of sustainable financial performance in relation to infrastructure provision.

The [Nationally Consistent] frameworks consider long-term financial performance and position to be sustainable where planned long-term service and infrastructure levels and standards as prioritised through community engagement and consultation are met without unplanned increases in rates and charges or disruptive cuts to services (LGPMC 2007, p. 1).

Ernst & Young (2012, p. 44) also highlighted that the regulatory and policy environment in most states has encouraged councils to adopt the approaches outlined in the Nationally Consistent Frameworks. For example, the *Queensland Local Government Act 2009* and *Local Government (Finance, Plans and Reporting) Regulation 2010* include ‘requirements relating to financial sustainability and longer term planning’.

Hence the policy focus for asset management at the state level has its origin in the legislative requirements for councils to prepare a long-term asset management plan. Section 104(3)(6) of the *Queensland Local Government Act 2009* and sections 135 and 136 of the *Local Government (Finance, Plans and Reporting) Regulation 2010* outlines the requirements and contents for the long-term asset management plan:

104 Financial management, planning and accountability documents

(3) The planning and accountability documents include the following documents -

- (a) an annual report;
- (b) a 5-year corporate plan;
- (c) an annual operational plan;
- (d) a long-term community plan;
- (e) a financial plan;
- (f) a long-term asset management plan;
- (g) a report on the results of an annual review of the implementation of the annual operational plan, 5-year corporate plan and long-term community plan.

(6) A long-term asset management plan is a document that -

- (a) outlines the local government’s policies and strategies for ensuring the sustainable management of the local government’s assets and infrastructure, during the period covered by the plan; and
- (b) covers a period of at least 10 years after the commencement of the plan.

135 Preparation of long-term asset management plan

(1) A local government must prepare and adopt a long-term asset management plan.

(2) A long-term asset management plan continues in force -

- (a) for the period of at least 10 years stated in the plan; or
- (b) until the earlier adoption of a new long-term asset management plan.

136 Long-term asset management plan contents

The long-term asset management plan must -

- (a) provide for strategies to ensure the sustainable management of the assets mentioned in the local government’s asset register and infrastructure of the local government; and
- (b) state the estimated capital expenditure for renewing, upgrading and extending the assets for the period covered by the plan; and
- (c) be integrated with the long-term financial forecast.



### Queensland Government's Asset Management Advancement Program

In order to expedite the implementation of the National Asset Planning and Management Framework in Queensland, the state government developed the *Asset management advancement program (A-MAP) 2009–10 Guideline*. This Guideline articulated the state government's policy position on asset management, as summarised in Table 7.2.

**Table 7.2 State Government's Policy Position on Asset Management**

Policy Component	Description
Policy objective	The sustainable management of community infrastructure by local government.
Policy	All Queensland local councils are to develop and maintain long-term financial plans based on sound infrastructure asset management plans for the infrastructure asset classes and sub-classes described in the associated schedule 1.
Schedule 1	<p>Buildings</p> <ul style="list-style-type: none"><li>• Community facilities – including libraries, community centres, halls, public toilets</li><li>• Corporate real estate – including administration buildings</li></ul> <p>Recreation facilities</p> <ul style="list-style-type: none"><li>• Pools, sporting stadiums, tennis courts, park facilities</li></ul> <p>Infrastructure</p> <ul style="list-style-type: none"><li>• Roads network (sealed, gravel, reseals, formed) – including pavement, seal, kerb and channel, drainage, traffic management, furniture and signs, lighting and paths</li><li>• Stormwater drainage network – including open channel stormwater drains</li><li>• Flood mitigation network</li><li>• Water supply and sewerage network [with the exception of South East Queensland Council where in some cases separate water entities have been created by the state government]</li><li>• Bridges (timber and concrete)</li><li>• Wharves, piers and jetties, pontoons</li><li>• Bus/road tunnels</li><li>• Waste landfill</li><li>• Retaining walls, sea and river walls, canals</li></ul> <p>Other assets</p> <ul style="list-style-type: none"><li>• Off road footpaths, bikeways, beaches, natural reserves, urban parks and streetscapes</li></ul>

Source: Adapted from DLGP (2011a, p. 8).

To assist Queensland councils in achieving the policy position of the Queensland Government as summarised in Table 7.2, approximately \$2.7m in federal funding from the LGRF was awarded to the state government and the LGAQ to implement the A-MAP program in 61 Queensland councils. Given the size and in-house expertise of

MBRC, it was initially excluded from the A-MAP program. However, in late 2011 LGRF funding was allocated to MBRC to participate in the program. Under the LGRF program, councils were required to prepare ‘core’ asset management plans using the International Infrastructure Management Manual (IIMM) proforma as a guide (see below) by 30 September 2012. Non- LGRF councils were also required by the Queensland Government to meet this milestone.

### Sustainability and Reporting Process

Another component of Queensland’s response to the Nationally Consistent Frameworks was the formulation of the *Sustainability and Reporting Process* in 2008. This process required Queensland councils to report on asset management, community engagement, governance and long-term financial management (sustainability). The purpose of this reporting process was to monitor the ‘financial sustainability of local governments’ and to assist in the ‘the development of support strategies’ where required (DLGP 2011b, p. 7). Table 7.3 provides a summary of the type of information collected from each council under this sustainability and reporting process for asset management via the Annual Return on Asset Management.

Using information gathered from Queensland councils’ responses to the questions outlined in Table 7.3, the following key observations were made in the Queensland Government’s report on the *2011 Annual Return on the Status of Asset Management*:

- 12 councils have completed all asset management plans
  - 16 councils made significant progress since 2010 and are nearing completion
  - 16 councils have made some progress since 2010
  - 11 councils have made no progress since 2010.
- (DLGP 2011b, p. 4)

It was also reported by the Queensland Government in this publication that, whilst large and very large councils in Queensland had either completed or almost completed asset management plans, small and medium-sized local governments did not have asset management plans for ‘the significant infrastructure assets such as water, sewerage, roads, bridges and stormwater and this represents a significant deficiency in asset related data and information for these key assets’ (DLGP 2011b, p. 4).

**Table 7.3 Annual Return on Asset Management Summary**

Return on Asset Management Components	Component Description	Return Questions
Asset management plan (AMP) overview	These questions were asked in order to provide the state government with an overview of councils' asset management process	<ul style="list-style-type: none"> <li>• Does your council have this asset class?</li> <li>• Has the AMP been adopted by Council?</li> <li>• Has the AMP been progressed to Draft stage?</li> <li>• When was the AMP last updated?</li> <li>• Have existing service standards been determined for the asset class?</li> <li>• Have forward expenditure projections been incorporated in the long term financial forecast?</li> <li>• Comments/explanatory notes</li> </ul>
AMP process	These questions were asked in relation to councils' asset management process	<ul style="list-style-type: none"> <li>• Did the Local Government Reform Fund project to advance Asset Management Planning assist your council?</li> <li>• Does Council develop its AMPs using its own staff?</li> <li>• Does the Council have a preferred approach to developing AMPs?</li> <li>• Does Council believe that it has the necessary technology support for developing AMPs?</li> </ul>
Asset base	Councils were required to provide this information about their asset base	<ul style="list-style-type: none"> <li>• Capital expenditure estimate for renewals for year ended 30 June 20xx</li> <li>• Capital Expenditure estimate on New or Upgrade works for year ended 30 June 20xx</li> <li>• Comments/explanatory notes</li> </ul>

*Source:* Adapted from Queensland Government Department of Local Government (2012).

The Queensland Government also outlined some of the risks associated with not having asset management plans in place. These risks include 'underestimating future funding demands' by not being able to accurately plan for 'annual capital expenditure, maintenance and operational requirements' into the future. The Queensland Government also highlighted that if councils are not incorporating the full cost of 'operating, maintaining and replacing assets' into their long-term financial planning, they are not able to 'strategically manage their asset portfolios' using 'known and projected funding sources'. This represents a 'risk to the ongoing financial sustainability of the council' (DLGP 2011b, p. 4).

#### International Infrastructure Management Manual (IIMM)

The IIMM is a 'how to' guide to asset management developed by the New Zealand National Asset Management Steering Group (NAMS) and the Institute of Public Works Engineering Australia (IPEWA). The IIMM describes two parts to the asset management process as outlined below.

The first part of the AM [asset management] process is about understanding and defining what services the infrastructure assets should deliver.

- Develop the AM policy
- Define service levels and performance
- Forecast future demand
- Understand the asset base (the asset register)
- Assess asset condition
- Identify asset and business risks

The second part of the AM process ... is deciding the most effective lifecycle strategies to deliver the defined requirements.

- Lifecycle decision making techniques
  - Operational strategies and plans
  - Maintenance strategies and plans
  - Capital works strategies
  - Financial and funding strategies.
- (NAMS and IPEWA 2011a, p. 3)

The IIMM also identifies various ‘enablers’ as part of the abovementioned processes such as ‘asset management plans’ and ‘information systems and tools’ (NAMS and IPEWA 2011a, p. 3). Council’s consolidated approach to asset management has been guided by this industry standard approach to asset management.

### **7.3 MBRC’S CONSOLIDATED APPROACH TO ASSET MANAGEMENT**

Amalgamation required MBRC to commit large amounts of staff time and resources to identifying and conducting ‘consolidating processes’ in relation to asset management. Each of the former three councils had different asset management practices and processes that needed to be understood and evaluated as part of the consolidation process. Notwithstanding these costs, amalgamation also provided the opportunity for a newly formed council, such as MBRC, to benchmark its asset management process against best-practice principles and to implement new asset management principles and practices.

The formation of MBRC created a council that is responsible for a diverse range of infrastructure assets with a total value of approximately \$4 billion in 2012. In strategic terms, the overarching policy framework for the management of this large asset base is detailed in the following council documents:

- Infrastructure asset management policy
- Asset management strategy
- Long-term asset management plan

The stated objective of MBRC's infrastructure asset management policy is 'to ensure all infrastructure assets are managed and maintained to provide services for the community in our region, in a safe and sustainable manner through a whole of Council approach' (MBRC 2012a, p. 1).

Council has developed an asset management strategy to achieve this policy outcome. The stated purpose this strategy 'is to describe council's approach to asset management and to identify strategies and actions that will ensure the responsive and sustainable delivery of council services to the community into the future' (MBRC 2012b, p. 3)

As the strategy was prepared late in the first council term of the newly amalgamated MBRC, it was developed to address asset management matters resulting from amalgamation. These issues included the need for asset data to be stored in one system, the development of better-defined asset hierarchies, incomplete asset data with not all of MBRC's assets recorded, incomplete asset condition data, poorly defined service levels, lack of clarity regarding of roles and responsibilities in the areas of asset management and related services across MBRC, and the absence of clearly defined corporate asset management processes (MBRC 2012b, p. 5).

In response to these issues, MBRC identified the following outcomes to be achieved through this strategy. Achieving these outcomes is central to the consolidation process resulting from amalgamation.

1. A single, complete and accurate register of the infrastructure assets, and the condition and expected life of each asset is known, recorded and reviewed at appropriate intervals.
  2. A whole of life approach to asset management to support a sustainable level of service which meets the community's expectations now and into the future.
  3. A clear understanding amongst council staff of their roles and responsibilities in relation to asset management.
  4. Documented asset management procedures fully supported by integrated corporate information systems.
  5. A capital works program based on a lifecycle approach to asset management which includes acquisition, operations and maintenance, future replacement requirements, and disposal/decommissioning activities.
  6. Assets and related services provided by MBRC that continue to meet relevant regulations and standards as required.
- (MBRC 2012b, p. 6)

Council's long-term asset management plan is the key document within this policy framework. As noted in Section 7.2, it is a legislative requirement for council to prepare

this plan. MBRC completed and adopted its first long-term asset management plan in May 2012. As outlined in Chapter 6, this plan ‘informs the financial plan’ in relation to costs associated with asset management, ‘guides what council intends to achieve in the corporate plan’ in relation to the provision of public infrastructure, and ‘guides council capital works program’ in MBRC’s operational plan (MBRC 2011e).

MBRC’s long-term asset management plan, based on a template developed by the IIMM, is considered to be at the ‘core plan’ level according to the IIMM ‘Asset Management Plan Maturity Index’. This index has four levels: minimum, core, intermediate and advanced. A core long-term asset management plan is characterised as:

contain[ing] basic information on assets, service levels, planned works and financial forecasts (5-10 years) and future improvements [minimum] ... plus executive summary, description of services and key/critical assets, top-down condition and performance description, future demand forecasts, description of supporting AM processes, 10 year financial forecasts, 3 year AM improvement plan (NAMS and IPEWA 2011b, p. 4/14).

The plan is divided into five sections by asset class. The asset classes used are consistent with the asset classes used in council’s financial statements: buildings, park equipment, transport, stormwater, waterways and canals. Each section has eight chapters, as summarised in Table 7.4.

The purpose of each of these chapters is consistent with the IIMM template outlined in NAMS and IPEWA (2011a, p. 23). By critically reviewing the key issues addressed in this plan, and the associated proposed actions, detailed observations can be made on the impact of amalgamation on the practice of asset management in local government.

**Table 7.4 Summary of Chapters – MBRC’s Long-Term Asset Management Plan**

<b>Chapter</b>	<b>Description</b>	<b>Purpose</b>
1	Outlines the purpose of each section of the plan.	Introductory remarks
2	<ul style="list-style-type: none"> <li>Qualitative and descriptive information is provided about which assets are included in this section of the plan.</li> <li>Quantitative data are provided for each asset class including asset types and number of individual asset.</li> </ul>	Introduction to what assets council own (data accuracy and reliability)
3	<ul style="list-style-type: none"> <li>Provides information of ‘asset service levels’ for each asset class.</li> </ul>	What services council provides
4	<ul style="list-style-type: none"> <li>Details information about future demand throughout the Moreton Bay Region for each asset class.</li> <li>Lists ‘other future impacts’ likely to affect future demand for assets.</li> </ul>	Planning for the future
5	<p>Outlines council’s ‘lifecycle management approach’ to asset management and includes the follow information for each asset class:</p> <ul style="list-style-type: none"> <li>Physical dimensions</li> <li>Asset condition</li> <li>Maintenance planning</li> <li>Renewal/replacement planning</li> <li>Acquisition</li> <li>Disposal</li> <li>Risk management</li> </ul>	How council manages assets to deliver services
6	<p>Details key financial and useful life information for each asset class including:</p> <ul style="list-style-type: none"> <li>Current useful live information</li> <li>Financial statements and projections</li> <li>Maintenance expenses</li> <li>Valuation information</li> </ul>	How much does it cost?
7	Describes council’s corporate asset management information systems and asset recognition processes.	Corporate asset management practices
8	<p>Contains and action plan listing tasks to be completed in order to improve council’s asset management practices for each asset class.</p> <p>Implementation of these actions has commenced through an <i>Organisational Asset Management Practice Project</i>. The aim of this project is to: ‘implement the actions from the asset management plans’ in partnership with relevant council officers throughout MBRC and to ‘roll out’ best practice asset management principles and processes throughout the council (MBRC 2012e, p 2).</p>	Improvement and monitoring

Source: Adapted from MBRC (2012c).

### 7.3.1 WHAT ASSETS COUNCIL OWN (DATA ACCURACY AND RELIABILITY)

Although MBRC’s long-term asset management plan contains a qualitative and quantitative inventory of council’s assets, this inventory is not as accurate as it should be, as described by MBRC (2012b, p. 4): ‘sustainable asset management requires accurate asset data. As a newly amalgamated council, much of the asset data for MBRC

has been sourced from different asset registers and supporting systems, with incomplete and inconsistent levels of data'. The three fundamental challenges faced by MBRC as a result of amalgamation in relation to asset data were collecting all the data from the three previous councils in one repository, organising the data, and assessing the reliability and accuracy of the data.

At a very practical level, all the asset data from the three previous councils needed to be transferred from three separate systems into the new MBRC corporate asset management system. This was a complex and dynamic task, taking several years and using significant amounts of staff time and other council resources. Council officers proactively identified the multitude of 'legacy' systems in existence throughout the new organisation. They were then required to assess the type and quality of the data contained in each system. The final step in the process was to determine how and when these data would be loaded into the new MBRC corporate asset management system.

This process highlighted the fact that each of the previous councils did not classify their assets in the same way. For example, in the building section of the long-term asset management plan, the inventory of assets has three different classifications for an amenity building – amenities building, pubtoilet and toilet (MBRC 2012c, p. 12). Furthermore, a number of assets were not recognised through this consolidation process. For example, council states in plan that 'there are a number of transport assets which are grouped assets. For example, NOTREC [not recognised] - 000697 represents the collective group of bridges in Pine district (WDV [written down value] of \$6.4m)' (MBRC 2012c, p. 143).

In the park equipment section of the plan council states 'there are further park equipment assets included with the [NOTREC] assets ... in the "unassociated" networks category in CAMS (corporate asset management system). The "NOTREC" items include various assets including play equipment, BBQs, sport courts, irrigation, softfall, shade sails, shelters and streetscaping' (MBRC 2012c, p. 52). Finally, in the transfer of asset data to the new MBRC corporate asset management system, incorrect asset classifications were identified. For example, in the stormwater section of the plan 'there are a further 109,657 assets which are currently in the STORM module in CAMS, which appear to be not drainage assets' (MBRC 2012c, p. 204). Given that accurate and



reliable data are the foundation of good asset management practice, this was the initial focus of council officers in the post-amalgamation period. After approximately four years of work, MBRC's long-term asset management plan described the reliability of asset data for each asset class as 'adequate', with the expectation that it would improve 'over time as the condition of assets becomes better known' (MBRC 2012c, pp. 43, 80, 177, 237, 288). MBRC's long-term asset management plan also lists a number of factors affecting the reliability of MBRC's asset data:

- Integrity and type of data captured in legacy systems prior to amalgamation;
- Accuracy and completeness of asset data captured in CAMS;
- Variations in assumptions on expected lives of assets;
- Validation of existing data within CAMS;
- Identification and validation of data not captured in CAMS;
- Knowledge of the asset condition;
- Knowledge and ability to meet required service levels;
- Future demand predictions;
- Accuracy of associated risk assessment for stormwater infrastructure assets; and
- Loss of tacit knowledge of assets through staff departures and organisational restructures. (MBRC 2012c, pp. 43, 80, 177, 237, 288)

Significant improvements are still required in relation to council's asset data and associated business processes, as demonstrated by the list of data-related action items in the long-term asset management plan for each asset class, as summarised in the Table 7.5.

**Table 7.5 MBRC Long-term Asset Management Plan: Data Consolidation Tasks**

<b>Asset Class</b>	<b>Data Consolidation Tasks</b>
Stormwater	<ul style="list-style-type: none"> <li>Investigate the stormwater assets which are blank or have NOTREC in the asset number prefix and update the missing details in CAMS.</li> <li>Review stormwater infrastructure assets with no or default into service dates (e.g. 1/01/1900) and identify an appropriate date into service and update systems accordingly.</li> <li>Review the as constructed process for the capture of new asset details and the process to capture renewal or upgrade projects to ensure it is functioning correctly.</li> <li>Identify gaps in the stormwater infrastructure network (especially subsurface assets) adjacent to other assets ... using spatial analysis techniques and investigate, to recognise missing assets.</li> <li>Improve data integrity in the Corporate Asset Management System (CAMS).</li> </ul>
Transport	<ul style="list-style-type: none"> <li>Consistent terminology and definitions are required to simplify and standardise the terms associated with these assets and the associated systems.</li> <li>Assets with a NOTREC prefix have not been recognised properly and may contain groups of assets (e.g. Pine district bridges). These assets should be reviewed and identified.</li> <li>Finalise asset identification and condition assessment for kerb and channel, footpaths and guardrail assets.</li> <li>Review transport infrastructure assets with no or default into service dates (e.g. 1/01/1900) and identify an appropriate date into service.</li> <li>Develop a road segmentation process that meets requirements from all key stakeholders.</li> <li>Improve data integrity in the Corporate Asset Management System (CAMS).</li> </ul>
Buildings	<ul style="list-style-type: none"> <li>Update asset register in CAMS to reflect the proposed building components.</li> <li>Revise the asset types and terminology to ensure these are consistent and grouped correctly.</li> <li>Identify the building assets under the proposed sub-classes of commercial, community and corporate.</li> <li>Review and identify those building assets with an asset number prefix of 'NOTREC'.</li> <li>Correctly record the 29 non network sewer pump stations in CAMS.</li> <li>Review buildings infrastructure assets with no or default into service dates (e.g. 1/01/1900) and identify an appropriate date into service.</li> </ul>
Park equipment	<ul style="list-style-type: none"> <li>Review the 'NOTREC' list to correctly identify the assets for the park equipment group.</li> <li>Review the park equipment assets with no or default into service dates (e.g. 1/01/1900) and identify an appropriate date into service.</li> <li>Ensure that assets which are replaced, upgraded or decommissioned are clearly identified and correctly retired.</li> </ul>

Source: MBRC (2012c, pp. 41–42, 78–79, 175–177, 234–236, 287–288).

Table 7.5 shows that significant work is yet to be undertaken in response to the examples of gaps in the data highlighted above. The importance of accurate and reliable data on council's assets is discussed in more detail below.

### 7.3.2 WHAT SERVICES COUNCIL PROVIDES

MBRC's focus in its 2012–2017 Corporate Plan is on the services delivered by council to achieve its vision for the region as outlined in its Community Plan (see Chapter 6 in this thesis) (MBRC 2012d). Assets provided by council are for the sole purpose of delivering services. Therefore, council's asset management process should begin with the question: What level of service does council provide using its assets? The IIMM defines levels of service levels as:

The outputs a customer receives from the organisation. Levels of service statements describe what the organisation is intending to deliver; commonly relate to service attributes such as quality, reliability, responsiveness, sustainability, timeliness, accessibility and cost; and should be written in terms the end user can understand and relate to (NAMS and IPEWA 2011a, p. 5).

The IIMM defines performance measures as:

Specific indicators that are used to demonstrate how the organisation is doing in relation to delivering levels of service, sometimes differentiated between: a customer performance measure which measures the service the customer receives; and a technical performance measure; which measures how effectively the organisation provides the service (NAMS and IPEWA 2011a, p. 5).

In order to achieve a more integrated, holistic approach to levels of service and performance measures, MBRC has linked these two concepts into its 'service levels' typology, as summarised in Table 7.6.

**Table 7.6 MBRC Typology of Service Levels**

Service Levels	Definition
Community service level	What standard of assets is to be provided to the end user. This definition typically describes the function, quality and safety standards of the assets being provided.
Technical service levels	How this standard of assets is to be provided, developed and maintained. <ul style="list-style-type: none"><li>• How the asset will be provided (provision service level)</li><li>• How the asset will be developed (development service level)</li><li>• How the asset will be maintained (maintenance service level).</li></ul>

*Source:* MBRC (2012c, p. 15).

The service levels typology as described in Table 7.6 has been applied for MBRC's transport assets as follows. MBRC's community service level for transport assets is firstly described in qualitative terms using the following statement:

Council's road and pathway transport assets provide access to the region's places to move people and goods in a safe and timely manner. Council's nodal transport assets provide an efficient and effective point of transfer from one mode of transport to another (MBRC 2012c, p. 144).

More quantitative service levels are then provided as summarised in Table 7.7.

It is interesting to note that council's asset management strategy stated that MBRC's 'service levels are poorly defined' and are not integrated with council's budget process (MBRC 2012b, p. 8). This issue has been earmarked as 'key area for improvement' in the long-term asset management plan. Ultimately, service levels should be 'measurable, clearly defined and agreed by the relevant stakeholders, with reference to the community' (MBRC 2012b, p. 8). These shortcomings in the service levels can be clearly seen in Table 7.7. For example, the technical service levels for provision and maintenance do not provide any meaningful detail and in some cases data are yet to be sourced for the baseline data and the target. Furthermore, the technical service level – development does not consider roads and focuses on alternative modes of transport only. In addition, there is not a clear, logical link between the technical service level – development and the stated measure. The measure simply implies that increasing the share of trips by public transport, walking and cycling is evidence that an adequate standard of asset has been provided. Finally, these service levels were in no way tested with the community.

Why were these 'poorly defined' service levels used? The Queensland Government's A-MAP program stated that 'for local governments that have not previously done so, the asset management plans will need to be formally adopted in conjunction with the formal adoption of the 2012–13 budget' (DLGP 2011a). At the time council adopted its long-term asset management plan, the service levels used were based on the corporate information that was readily available. The task of consolidating asset service levels as a result of amalgamation was yet to be finalised.

**Table 7.7 MBRC Transport Assets Levels of Service**

Service Levels	Measure	Baseline Data	Service Level Indicator Target
<p>Community level of service</p> <p><i>Residents' satisfaction with transport services</i></p>	<p>Moreton Bay Regional Council's Community Attitude Survey Question:</p> <p>How would you rate council's performance in the following areas:</p> <ul style="list-style-type: none"> <li>• Bikeways</li> <li>• Streetlighting</li> <li>• Footpaths, kerb and guttering</li> <li>• Traffic management (including parking)</li> <li>• Standard of road surfaces</li> </ul>	<p>Moreton Bay Regional Council Community Attitude Survey 2009, rating of council's performance:</p> <ul style="list-style-type: none"> <li>• Bikeways: 3.62 out of 5 (weighted average)</li> <li>• Streetlighting: 3.57 out of 5</li> <li>• Footpaths, kerb and guttering: 3.41 out of 5</li> <li>• Traffic management (including parking): 3.40 out of 5</li> <li>• Standard of road surfaces: 3.21 out of 5</li> </ul>	<p>Moreton Bay Regional Council Community Attitude Survey, rating of council's performance:</p> <ul style="list-style-type: none"> <li>• Bikeways: 4 out of 5 (weighted average)</li> <li>• Streetlighting: 4 out of 5</li> <li>• Footpaths, kerb and guttering: 4 out of 5</li> <li>• Traffic management (including parking): 4 out of 5</li> <li>• Standard of road surfaces: 4 out of 5</li> </ul>
<p>Technical service level – provision</p> <p><i>Adequate access to the region's places to move people and goods in a safe and timely manner</i></p>	<ul style="list-style-type: none"> <li>• Percentage of households serviced by the transport network in accordance with relevant council planning provisions e.g. Planning scheme and local area plans</li> <li>• Replacement value of the transport network per rateable property</li> </ul>	<ul style="list-style-type: none"> <li>• Percentage of households serviced by the transport network in accordance with relevant council planning provisions e.g. Planning scheme and local area plans: <i>Baseline data yet to be sourced</i></li> <li>• Replacement value of transport network per rateable property 2010/11: \$11,740</li> </ul>	<ul style="list-style-type: none"> <li>• Percentage of households serviced by the transport network in accordance with relevant council planning provisions e.g. Planning scheme and local area plans: <i>Baseline data yet to be sourced</i></li> <li>• Replacement value of transport network per rateable property: \$11,740</li> </ul>
<p>Technical service level – development</p> <p><i>Use of transport assets by alternative modes of transport</i></p>	<ul style="list-style-type: none"> <li>• Daily trips by residents using public transport</li> <li>• Daily trips by residents walking</li> <li>• Daily trips by residents cycling</li> </ul>	<ul style="list-style-type: none"> <li>• Share of trips by public transport 2006: 6.2 per cent</li> <li>• Share of trips by walking 2006: 8.9 per cent</li> <li>• Share of trips by cycling 2006: 1.7 per cent</li> </ul>	<ul style="list-style-type: none"> <li>• Share of trips by public transport 2031: 11.0 per cent</li> <li>• Share of trips by walking 2031: 11.0 per cent</li> <li>• Share of trips by cycling 2031: 8.0 per cent</li> </ul>
<p>Technical service level – maintenance</p> <p><i>Capacity to deliver transport services which meet agreed service levels</i></p>	<ul style="list-style-type: none"> <li>• Compliance with council's network road maintenance service levels</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with council's road network maintenance service levels during 2010/11: 95%</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with council's road network maintenance service levels during 2010/11: 95%</li> </ul>

Source: MBRC (2012c, pp. 145–148).

As mentioned above, council's long-term asset management plan contains actions to improve these service levels. For example, the transport section of the plan states 'review the proposed service levels and update as required to match the actual levels of service' and 'review the proposed three level inspection program with current practice and standards [maintenance service levels]' (MBRC 2012c, p. 176).

Subsequent to council's adoption of the long-term asset management plan, a methodology was developed to establish a more robust set of service levels through the *Organisational Asset Management Practice Project* mentioned in Table 7.4. This methodology has four key components and is detailed below using roads assets as an example.

First, work need to commence on a corporate-asset hierarchy which would be accepted across the organisation. That is, council officers designing roads needed to be using the same terminology as officers constructing and maintaining road assets. Furthermore, the terminology used needed to be consistent with what was recorded in council's asset register. Based on industry practice and in consultation with relevant council officers, it was determined that there would be four types of roads: access, collector, sub-arterial and arterial.

Second, the scope of the task needed to be refined. The previous three councils listed their technical service levels (provision and development) in their strategic town planning documents, design manuals and other technical documents. Council was not in a position to consolidate theses service levels, as each of the three previous town plans (planning schemes) were still in place. As a result, council officers focussed their efforts on consolidating the maintenance service levels.

The third component was consolidating actual maintenance service levels. Some progress has been made since amalgamation. For example, council's long-term asset management plan contains 'Levels of Service 2010-11 Parks and Open Space Maintenance' (MBRC 2012c, pp. 95–138). These maintenance service levels were endorsed by council and include the elements listed in Table 7.8:

**Table 7.8 Initial MBRC Maintenance Service Levels Elements**

Elements	
<ul style="list-style-type: none"> <li>• Parks mowing</li> <li>• Sports turf maintenance</li> <li>• Roadside mowing</li> <li>• Walkways mowing</li> <li>• Landscape maintenance</li> <li>• Tree services</li> <li>• Irrigation maintenance</li> <li>• Play elements maintenance</li> <li>• Park furniture and infrastructure maintenance</li> </ul>	<ul style="list-style-type: none"> <li>• Natural areas maintenance</li> <li>• Recreation trails maintenance</li> <li>• Waterways vegetation maintenance</li> <li>• Fire trails and asset protection zones maintenance</li> <li>• Prescribed burns</li> <li>• Pest plant operations</li> </ul>

Source: MBRC (2012c, pp. 95–138).

Using a star rating system, the document provides guidance on the level and frequency of the specific maintenance activities listed in Table 7.8. For example, a five-star park furniture and infrastructure maintenance level of service is described as an ‘intense maintenance regime ... typically applied to regional parks and very high use public areas’ and that ‘intervention levels are due to high public use (volume of active use) ... which results in higher wear’ (MBRC 2012c, p. 120).

The plan also contains a similar type of ‘draft maintenance levels of service for roads, drains and marine facilities’ (MBRC 2012c, pp. 185–199). The commentary in council’s long-term asset management plan in relation to these maintenance levels of service highlights the need to conduct further investigation into whether or not these service levels are actually being implemented.

**Table 7.9 Proposed Service Elements for Roads Maintenance Service Levels**

Service Element	Details for Each Service Element
<ul style="list-style-type: none"> <li>• Line marking</li> <li>• Signage</li> <li>• Pathways (includes footpaths and bikeways)</li> <li>• Street sweeping</li> <li>• Road surface faults</li> <li>• Litter control – urban</li> <li>• Litter control – rural</li> <li>• Vegetation control (weeds)</li> <li>• Vegetation control (vegetation)</li> <li>• Animal control</li> <li>• Road comfort – urban</li> <li>• Road comfort – rural</li> <li>• Bus shelter cleanliness</li> <li>• Bridges</li> </ul>	<ul style="list-style-type: none"> <li>• Description</li> <li>• Current service applied</li> <li>• Frequency</li> <li>• Performance standard</li> <li>• Customer response time</li> <li>• Discussion</li> <li>• Action</li> </ul>

Source: MBRC (2012f).

This need to determine actual maintenance service levels led council officers to begin a review of what type of works constituted maintenance for each asset type. Table 7.9 shows what was developed for road assets.

Using the service elements outlined in Table 7.9, council officers began the task of determining what maintenance service levels were currently documented and/or in place throughout the council area. As Table 7.10 demonstrates, this process highlighted anomalies and gaps in corporate knowledge regarding the actual service levels being used.

**Table 7.10 Example of Current Roads Maintenance Service Level (Street Sweeping)**

<b>Service Element</b>	Street sweeping
<b>Description</b>	Street is clean and tidy
<b>Current Service Applied</b>	Street sweeping program is scheduled.  The region is divided into street sweeping zones.  May have additional service due to customer request or by exception (e.g. storm event).  Street sweeping occurs on kerbed roads only.
<b>Frequency</b>	Actual frequency that arterial roads are swept is not clear.
<b>Performance</b>	Service to ensure minimal presence of soil, sand, grit, litter or debris.  Street sweeping does not occur on unkerbed roads (urban swales are not maintained by council).
<b>Customer Response Time</b>	n/a
<b>Discussion</b>	Street sweeping is controlled by ECM Maintenance.  A service level for street sweeping on arterial roads is listed in ECM's draft Maintenance Levels of Service document and specifies that this occurs every two weeks.
<b>Action</b>	Confirm how street sweeping is monitored and recorded.  Review the frequency that arterial roads are actually swept compared with the frequency outlined in the draft Maintenance Levels of Service document.

*Source:* MBRC (2012f).

Table 7.10 shows that, in the case of street sweeping, whilst there was a documented service level in ECMs (Council's engineering, construction and maintenance division), officers could not confirm this service level was in place. There was also no reference to street sweeping in relation to roads other than arterial roads. Once an accurate inventory



of existing service levels could be articulated, council would then be in a position to determine what, if any changes were required.

The final component of this methodology would be to determine more robust and quantitative measures of council's performance against council-determined service levels. For example, once a consolidated maintenance program for street sweeping for each type of road was clearly articulated and approved by the council, this schedule of works could be programmed into council's asset management system, work orders generated and the work undertaken in the field. Once the works were completed (or otherwise) this would also be recorded in the asset management system so that a report could be generated showing council's performance.

It is important to note that the IIMM states that 'customer consultation can help to identify where there are levels of service issues to be addressed and to identify level of service cost preferences' (NAMS and IPEWA 2011a, p. 6). In the preparation of its long-term asset management plan, MBRC has not undertaken any community engagement with 'core' status in the IIMM Asset Management Plan Maturity Index. Any such community consultation in the future would need to be well planned, so as to avoid raising community expectations about proposed increases in service levels that may be unaffordable.

Furthermore, the abovementioned improvement in service levels was required for every council asset type. The complexity of this task depended in part on the asset management practices of the three previous councils – for example, some service levels may not have been well defined by one or more of the previous councils – but the following tasks were a direct result of amalgamation:

- Establishment of new systems
- Data collection
- Development of new service levels
- Creation of corporate business processes
- Development of relevant performance indicators.

As this issue of service levels demonstrates, MBRC councillors and officers were required to expend significant time and resources establishing systems and procedures post-amalgamation.

### 7.3.3 PLANNING FOR THE FUTURE (FUTURE DEMAND FOR ASSETS)

Demand forecasting ‘involves projecting demand for the service, generally over the life of the AM Plan or the life of the asset. “Demand” is a measure of how much customers consume the services provided by the assets’ (NAMS and IPEWA 2011a, p. 7). This element of MBRC’s long-term asset management plan has not yet reached the ‘core’ standard as per the IIMM Asset Management Plan Maturity Index outlined above. The IIMM states that a ‘core’ level of demand forecasting would include ‘demand forecasts based on robust projection of a primary demand factor (e.g. population growth) and extrapolation of historic trends. Risk associated with demand change [is] broadly understood and documented’ (NAMS and IPEWA 2011a, p. 7).

One of the consolidation tasks yet to be completed by MBRC following amalgamation is the preparation of one town plan (planning scheme) for the entire region. Benchmarks associated with future demand for infrastructure assets are still being developed as part of this process. This work will result in improved integration between council’s long-term asset management plan, the new planning scheme and other strategic town planning documents. The lack of integration between council’s long-term asset management plan and strategic town planning processes is an example of how newly amalgamated councils are required to consolidate first before they can even begin to develop more integrated approaches to issues such as growth management and infrastructure asset planning. This fact was highlighted by MBRC: ‘with the expected growth anticipated for the region, there will be a significant impact on service levels, asset lifecycle and financial requirements, however these are yet to be dimensioned in detail’ (MBRC 2012c, pp. 21, 151, 214). As a result, this chapter in each section in the long-term asset management plan was descriptive in nature and provided only general comments in relation to future demand for infrastructure. For example, increased demand for infrastructure assets due to a growing population was noted for each asset class. The plan also refers to studies recently completed that will in time provide more quantitative data on future demand for assets, such as *MBRC Sport and Recreation*

*Strategy 2010–2019, MBRC Regional Aquatic Facilities Study and the MBRC Open Space Strategy, to name only a few.*

#### 7.3.4 HOW COUNCIL MANAGES ASSETS TO DELIVER SERVICES (LIFECYCLE MANAGEMENT)

As part of the rationale for the establishment of MBRC the LGRC stated that:

The infrastructure demands of a rapidly growing urban area without any discernable boundaries are more effectively and efficiently addressed as a core business responsibility of a regional local government [and] The amalgamation of these three local governments results in a regional local government of a scale and capacity to: Obtain economies of scale advantages which facilitates improved governance, great access to technical resources, and an organisation better able to ... provide infrastructure' (LGRC 2007a, p.236).

To fully appreciate the task facing the newly amalgamated MBRC in relation to asset planning, construction and maintenance, an overview of the scale and scope of council's asset base due to amalgamation is provided in Table 7.11.

**Table 7.11 Overview of MBRC Assets**

Asset Class	Asset Condition Statement
Buildings	<ul style="list-style-type: none"> <li>1,000 building assets ranging from multi-storey office buildings to sheds and columbarium walls.</li> </ul>
Park equipment	<ul style="list-style-type: none"> <li>7,400 ha of parks representing approximately 1,700 parks.</li> <li>500 playground sites.</li> <li>900 ha of sports complexes (6 regional, 53 district and 19 local).</li> <li>61 ha of cemetery land representing 14 cemetery complexes.</li> </ul>
Transport	<ul style="list-style-type: none"> <li>In excess of 3,300 km of local roads, including 208 km of unsealed roads (38% rural and 62% urban).</li> <li>A sealed road network length with a surface area exceeding 21 million square metres.</li> <li>Associated road assets including the seal and pavement, kerb and channel and road furniture.</li> <li>Bridges, bus stops, car parks, paths and cycleways, and public lighting.</li> </ul>
Stormwater	<ul style="list-style-type: none"> <li>Approximately 260 km of surface assets (lined drains, unlined drains).</li> <li>In excess of 2,000 km of sub surface assets (pipes, box culverts).</li> </ul>
Waterways and canals	<ul style="list-style-type: none"> <li>25 km of canals including one lock gate</li> <li>Four jetties</li> <li>24 public boat ramps</li> <li>Seawalls</li> <li>Access stairs and canoe ramps</li> </ul>

*Source:* Adapted from MBRC (2012c, pp. 22, 61, 153, 216, 269)

Given that the newly amalgamated MBRC was required to establish new asset management systems and business processes, there was a unique opportunity to begin

the implementation of best-practice policy and processes in the management of MBRC's significant asset base, as described in Table 7.11. For example, a desired outcome listed in council's asset management strategy was 'a capital works program based on a lifecycle approach to asset management which includes acquisition, operations and maintenance, future replacement requirements, and disposal/decommissioning activities' (MBRC 2012b, p. 6). A key business process necessary to achieving this outcome is asset condition assessment. The implementation of this business process at MBRC provides an example of the complexities associated with the post-amalgamation organisational environment.

The IIMM defined asset condition as 'a measure of the physical state of the asset'. It also highlights the importance of condition assessment in that it 'underpins effective, proactive AM [asset management] programs by enabling prediction of maintenance, rehabilitation and renewal requirements'. Condition assessment also contributes to more accurate 'asset valuation and depreciation results' (NAMS and IPEWA 2011a, p. 9). Table 7.12 shows that, despite the difficulties associated with asset data discussed above, in some instances MBRC have made significant progress in acquiring an anecdotal assessment of asset condition.

**Table 7.12 Status of Conditional Assessment by Asset Class at MBRC**

Asset Class	Asset Condition Commentary
Buildings	<ul style="list-style-type: none"> <li>Condition is relatively well monitored due to visibility and to ensure safety for users.</li> <li>External consultants have conducted condition assessments for amenities, community halls and pools since amalgamation.</li> </ul>
Park equipment	<ul style="list-style-type: none"> <li>Play equipment has been the subject of regular compliance inspections using Australian Standards and therefore the condition of the play equipment is well known.</li> </ul>
Transport	<ul style="list-style-type: none"> <li>Condition is relatively well monitored due to its visibility and to ensure safety for users.</li> <li>In 2008/2009 a comprehensive visual road network survey was conducted.</li> </ul>
Stormwater	<ul style="list-style-type: none"> <li>Condition of surface assets is relatively well monitored.</li> <li>5% of the sub-surface network has been inspected using CCTV since amalgamation.</li> </ul>
Waterways and canals	<ul style="list-style-type: none"> <li>External consultants have conducted condition assessments for jetties and boating infrastructure since amalgamation.</li> <li>External consultants have conducted a video capture of the region's coastline and various significant estuaries and waterways.</li> </ul>

*Source:* Adapted from MBRC (2012c, pp. 22, 45, 61, 153, 216, 269).

Notwithstanding the progress made in relation to condition assessments of MBRC assets, as summarised in Table 7.12, a number of issues remain unresolved at MBRC with the business process of asset condition assessment that are a direct result of the amalgamation process. First, condition assessment information is not being used to inform council's financial planning and capital works programming in relation to renewal/replacement of assets. For example, the following statement is made in the building and transport assets sections of the plan:

Apart from identifying the maintenance issues, the condition capture for the building [and transport] assets can then be used to reassess the remaining useful life, and identify potential replacement requirements. At present, the available condition information has not been analysed for this purpose (MBRC 2012c, pp. 22, 153).

Condition assessment information should be being used to update the remaining useful life of assets in the corporate asset management system. Each year, a list of assets that have reached a pre-determined remaining useful life threshold can then be produced to inform council's capital works program. Table 7.13 shows the proposed corporate approach to this issue as recommended in the long-term asset management plan.

**Table 7.13 Proposed MBRC Corporate Approach to Developing an Asset Renewal Candidate List**

Steps	Action
1	From a CAMS query: <ul style="list-style-type: none"> <li>• identify financial assets with 20% or less of useful life remaining; and</li> <li>• identify non-financial assets at the end of their useful life.</li> </ul>
2	Take this list of assets and check for current condition assessments in CAMS or elsewhere.
3	Undertake further condition assessments if required.
4	Analyse condition assessment results to determine if the remaining useful lives need to be updated.
5	Update remaining useful lives information.
6	Produce a revised list of assets close to the end of their useful lives. This list of assets generated from Step 6 will form the basis for further investigation to develop a list of renewal projects for the relevant asset class. This list will inform a review of the replacement budget each financial year.

Source: MBRC (2012c, p. 25).

By implementing the business process for condition assessment outlined in Table 7.13, MBRC will be able to successfully use information about an asset's remaining useful life to inform council capital works program and budget each financial year.

Second, in some instances a systematic program of asset condition inspections is yet to be implemented for some asset classes, such as stormwater assets and buildings. To assist in responding to this issue, council's long-term asset management plan includes an industry standard proposed inspection program for each asset class. Furthermore, when preparing the plan, it became evident that the condition assessment processes should be reviewed in order to identify any deviations from industry standards. Consequently the following actions, as outlined in Table 7.14, have been included in the long-term asset management plan in relation to the asset condition assessment process.

**Table 7.14 MBRC Long-term Asset Management Plan: Condition Assessment Tasks**

Asset Class	Data Consolidation Tasks
Stormwater	<ul style="list-style-type: none"> <li>Review the proposed type and frequency of inspections for the drainage network assets against current standards and practices.</li> <li>Develop a systematic inspection regime for the stormwater network and update CAMS accordingly.</li> <li>Interpret results of condition inspections and extrapolate across the network and update CAMS accordingly.</li> </ul>
Transport	<ul style="list-style-type: none"> <li>Conduct a road network condition survey to identify damage following the 2011 flood event.</li> <li>Interpret results of latest condition capture inspections for transport assets for renewal candidates and update CAMS accordingly.</li> <li>Review the proposed three-level inspection program with current practice and standards.</li> </ul>
Buildings	<ul style="list-style-type: none"> <li>Identify the older buildings and perform condition assessments to determine appropriate RULs.</li> <li>Review the proposed three-level inspection program and identify the types of inspections required for community and commercial buildings.</li> </ul>
Park equipment	<ul style="list-style-type: none"> <li>Review and align the proposed program of inspections with current practice and standards and update CAMS accordingly.</li> <li>Interpret results of condition inspections for park equipment and extrapolate across the network to identify renewal &amp; upgrade candidates and update CAMS accordingly.</li> </ul>

*Source:* MBRC (2012c, pp. 41–42, 78–79, 175–177, 234–236, 287–288).

The tasks yet to be completed in relation to MBRC's asset condition assessment processes, as summarised in Table 7.14, further demonstrate the costs associated with establishing new asset management processes in a newly amalgamated council.

### 7.3.5 OTHER MATTERS

The remaining chapters of council's long-term asset management plan address various corporate matters associated with asset management. The financial and remaining useful

life information contained in Chapter 6 of each section of the plan includes estimated useful life and estimated remaining useful life of each asset class. The plan states that:

When assets are initially financially recognised, each asset is attributed with an estimated useful life, which is used as a basis for determining depreciation and long-term financial forecasting requirements ... Based on each asset's date into service and the estimated useful life, the remaining useful life can be determined. The estimated remaining useful life provides an indicator for future replacement investigations (MBRC 2012c, p. 68).

This information provides a clear picture of the age and likely condition of council's assets. For example, the transport section of the long-term asset management plan states 'that most asset types have greater than 60% remaining useful life' and 'that the bus shelter and guardrail asset types have higher proportions of assets numbers (47.6% and 44.2%, respectively) with a remaining useful life less than 40%' (MBRC 2012c, p. 163). Similarly, the stormwater section of the plan shows that the majority of the assets have greater than 60% remaining useful life (MBRC 2012c, p. 224).

These chapters of the plan also include valuation information, annual depreciation expense and maintenance expense. The task yet to be completed by the new amalgamated MBRC is to link the remaining useful-life information with a systematic condition assessment process (see Table 7.13 above) so that more a more robust evidence base can be developed to underpin council capital works program.

Ultimately, as the asset data improve, service levels become better defined, and systematic condition assessments processes and outcomes are in place, council will become more confident that affordable services levels are being provided to the community. This link between asset and financial planning in local government is concisely described by the IPEWA and ACELG (2012, p. 22): that 'an entity needs to adopt service levels that are affordable on an ongoing basis, and then to ensure that maintenance renewal activity is undertaken on a basis that minimises equivalent annual costs'.

Finally, each section of the plan describes the corporate asset management practices used by the organisation, including asset management information systems, asset recognition processes, standards and guidelines.

**Table 7.15 Asset Management Corporate Systems**

<b>System</b>	<b>Description</b>
Financial Management Information System (FMIS)	Corporate finance system.
Land Management Information System	Corporate land management system.
Electronic document record management system (RIO)	Corporate electronic document management system.
Geographical information system GIS	Holds spatial details of assets and some key asset attributes.
Corporate asset management system CAMS	Corporate asset register containing asset management and maintenance information, and has monitoring and exception reporting capabilities.
CIPS Project Database	Capital works program.
Plan Register	Corporate record of ‘as constructed’ drawings for assets either contributed by developers or constructed internally by Council.
Performance Planning	Corporate planning and performance system.
Former AM [asset management] systems	The ‘legacy’ asset management systems from the three former councils.

*Source:* Adapted from MBRC (2012c, p. 37).

Table 7.15 shows the extent of the corporate information systems that have been developed since amalgamation to support planning and operational activities associated with managing MBRC’s assets.

The final chapter in each section outlines the actions to be completed in order to monitor and improve council’s asset management practice. A number of these actions have been considered in the above discussion.

What becomes apparent when considering the impacts of amalgamation on asset management is the requirement that council achieve multiple consolidation tasks concurrently. When the newly amalgamated MBRC was created, every asset from the previous three councils required management from day one. Ensuring access to up-to-date asset data, developing new corporate systems, determining and monitoring the condition of assets, and establishing consistent levels of service all needed to be achieved seamlessly so that the community did not experience any significant disruption to service delivery. To further complicate matters, these tasks needed to be achieved within an organisational context of significant change. New organisational structures were being put in place and senior council officers were required to understand and prioritise the service delivery needs of a large regional council. Councillors were required to make a vast range of complex decisions so that the new organisation could



begin operations. There is no doubt that the cost and time associated with these processes were significant.

#### **7.4 LAND TENURE**

Land tenure is another dimension to the post-amalgamation context impacting on the management of various assets owned or controlled by council. Land tenure affects the facilities used by community and sporting groups, such as community centres, club houses, sporting fields and associated infrastructure. Land tenure refers to the lease arrangements or other agreements in place to facilitate public use of these council-owned assets. Council outlines the scope of this problem as follows:

With the formation of the Moreton Bay Regional Council, there are now disparities across the region in the rights, obligations, roles and responsibilities afforded to these groups occupying Council land as well as disparities in the conditions and standards of the facilities, the care and attention afforded to them, and the allocation of council resources (MBRC 2010e).

Whilst the different approaches to community leasing of the former three councils ‘were quite legitimately established’, for MBRC ‘this disparity created various equity issues’ in that community and sporting groups were treated differently throughout the region and as a result, ‘a consolidated approach to land tenure was required’ (MBRC 2010e).

MBRC (2010e) argued that this consolidated approach to land tenure would also streamline the administration of leases to community and sporting groups ‘as the new organization cannot continue to implement three different operational practices’. This project is a further example of actual change processes required as part of the amalgamation process. It was a complex and time-consuming task. Every lease and agreement between council and a community or sporting group was reviewed to determine the roles and responsibilities of each party and the fees/charges payable by the group. Once this was completed, a proposed consolidated policy was developed and the financial implications of this policy for both council and each community or sporting group needed to be modelled and understood in detail. The next section discusses the key issues resulting from the development of a consolidated approach to land tenure by the newly amalgamated MBRC.

## 7.5 MBRC'S CONSOLIDATED APPROACH TO LAND TENURE

### 7.5.1 BACKGROUND INFORMATION

Table 7.16 provides a summary of land tenure arrangements under the former three councils.

**Table 7.16 Legacy Land Tenure Arrangements**

Former Local Government Area	Land Tenure Summary
Caboolture Shire Council	<p>The former council had community and sporting groups subject to either 'guidelines' or leases as summarised below:</p> <p>Guidelines</p> <ul style="list-style-type: none"> <li>• Sporting groups shared building maintenance with council.</li> <li>• Council maintained sports fields.</li> <li>• No fees, charges or rates were payable by the sporting groups under these guidelines.</li> </ul> <p>Leases</p> <ul style="list-style-type: none"> <li>• Council held 39 leases with community groups.</li> <li>• Community groups were responsible for building maintenance.</li> <li>• Lease fees varied from \$1 to \$16,500 per annum.</li> <li>• Approximately one third of the community groups with a lease paid rates and charges.</li> </ul>
Pine Rivers Shire Council	<ul style="list-style-type: none"> <li>• Majority of community and sporting groups had a lease over entire sites or complexes.</li> <li>• The lessee had responsibility for building and field maintenance.</li> <li>• Lease fees varied from \$100 to \$1,400 per annum.</li> <li>• The rates and charges levied by the former council varied between leases.</li> </ul>
Redcliffe City Council	<ul style="list-style-type: none"> <li>• Community and sporting groups entered into a lease over the footprint of building, and a seasonal license over the sports fields.</li> <li>• The lessee has responsibility for building maintenance (excluding major structural works) with council responsible for field maintenance.</li> <li>• Lease fees varied from \$100 to \$4,000 per annum.</li> <li>• The majority of community and sporting groups paid rates and charges.</li> </ul>

*Source:* Adapted from MBRC (2012g).

Table 7.16 illustrates the inequities that existed between the former council areas. For example, in the former Caboolture Shire Council area, lease fees varied from \$1 to \$16,500 per annum, compared with \$100 to \$400 per annum and \$100 to \$1,400 per annum in the former Pine Rivers Shire Council and Redcliffe City Council areas, respectively.

### 7.5.2 ASSET OWNERSHIP

The question of asset ownership emerged early in deliberations about a consolidated approach to land tenure; however, it is yet to be fully resolved and will be the subject of further legal investigations. Various issues emerged when council attempted to determine which community centres, club houses and other buildings it actually owns. Assets constructed by council on council freehold owned land were clearly council owned, but ownership was not always as straightforward. For example, if a sporting group had constructed a clubhouse on state-owned land controlled by council as trustee, who owns the asset? This situation is further complicated if council had contributed grant funding to build the asset. Ultimately, the question of asset ownership is critical to determining what assets are listed on council's asset register and has implications for insurance, maintenance and replacement activities.

### 7.5.3 TYPE OF AGREEMENT

Consistency was required in relation to the type of agreements community and sporting groups would enter into with council for use of council-owned or -controlled assets. Table 7.17 outlines the agreements proposed by council officers.

**Table 7.17 Consolidated Lease and Other Agreement Types**

<b>Agreement Type</b>	<b>Description</b>
Lease over footprint of building	<ul style="list-style-type: none"><li>• The community or sporting group has exclusive use of the building generally for a term of five years.</li></ul>
Permit/s over fields	<ul style="list-style-type: none"><li>• All sporting fields will be managed under a non-exclusive permit from council.</li><li>• Permits on council-owned and -controlled land will be offered for a maximum of three years.</li><li>• Seasonal permits will be issued where multiple sporting groups share a sporting field during a 12-month period.</li></ul>
License for shared use of buildings	<ul style="list-style-type: none"><li>• A license will be provided where a building is used by more than one group for a maximum term of five years.</li></ul>
Lease over entire complex/facility	<ul style="list-style-type: none"><li>• Umbrella sporting associations – lessee shares building maintenance and field access scheduling with council and council maintains the sporting fields.</li><li>• Specialist facilities – lessee undertakes all maintenance.</li><li>• Showgrounds – lessee undertakes all maintenance with the exception of sports fields.</li></ul>

*Source:* Adapted from MBRC (2012g).

Adopting these new types of lease and agreements, as described in Table 7.17, will require that over time all community and sporting groups be transferred onto the most appropriate lease or agreement.

#### 7.5.4 MAINTENANCE ARRANGEMENTS

Developing a consistent approach to maintenance of community centres, club houses, sporting fields and associated infrastructure owned or controlled by council was the equity issue with the most financial and political implications. As summarised in Table 7.16, council was essentially maintaining buildings and sporting fields in the former Caboolture and Redcliffe local government areas, albeit to varying degrees. However, in the former Pine Rivers local government area, maintenance was the responsibility of the lessee. This presented a difficult decision for council. If council decided to apply the ‘Pine Rivers’ approach, community and sporting groups in the other areas would then be subject to new, and potentially significant, maintenance costs. Alternatively, applying the highest maintenance service levels across the region from the former Caboolture Shire Council would come at significant cost to MBRC. Ultimately, council officers recommended the approach summarised in Table 7.18.

**Table 7.18 Proposed Consolidated Approach to MBRC Land Tenure (Maintenance)**

<b>Council Owned/Controlled Asset</b>	<b>Description of Maintenance Facilities</b>
Buildings	Community and sporting groups will share maintenance responsibilities as per a ‘maintenance responsibility schedule’. In general terms council will be responsible for maintenance of fixtures, e.g. flooring, windows, external painting whilst the groups will be responsible for fittings, e.g. minor plumbing and electrical and all cleaning. This approach was based on the former Caboolture Shire Council ‘guidelines’ as summarised in Table 7.16 above.
Sporting fields	Council will be responsible for the maintenance of the sporting fields. It is anticipated that Council’s annual field program will generally include: <ul style="list-style-type: none"> <li>• 39 cuts</li> <li>• two aerations</li> <li>• one fertilisation</li> </ul> However, sporting groups will be responsible for: <ul style="list-style-type: none"> <li>• Line marking</li> <li>• Player boxes</li> <li>• Spectator seating</li> <li>• Goal posts</li> <li>• Score boards</li> <li>• Field lighting.</li> </ul>

*Source:* Adapted from MBRC (2012g).

The proposed approach outlined in Table 7.18 enabled council to successfully manage community expectations by not decreasing service levels in any locations throughout the region. Furthermore, council's ongoing role in the maintenance of their community centres, club houses, sporting fields and associated infrastructure will maximise council's efforts to implement best-practice asset management practices. However, it is anticipated that this proposed approach will cost council an extra \$2.5m per year. It is important to note that this figure does not include retrospective maintenance activities required to bring up to the required standard the council assets currently not maintained by council in the former Pine Rivers Shire Council area.

#### 7.5.5 FEES AND CHARGES

As summarised in Table 7.16, the former councils applied a variety of fees and charges to leases and other agreements. The standardised fees and charges proposed by council officers are summarised in Table 7.19.

**Table 7.19 Proposed Consolidated Approach to MBRC Land Tenure (Fees and Charges)**

<b>Fees and Charges</b>	<b>Description</b>
Building lease fees	Various categories of sporting and community groups were established and a building lease fee was determined for each category based on the 'capacity to pay principle'.
Building license fees	The building licence fee was proposed to be 50% of the applicable lease category fee.
Field permit fees	It was proposed to base the field permit fee on a 'partial cost recovery basis' in order to recoup some of the expenses associated with the mowing and maintenance of sports fields. The proposed fee was based on a square metre rate which reflects the increase in mowing and maintenance costs for larger sporting fields as opposed to smaller fields.
Lease preparation fees	In accordance with council's schedule of fees and charges for 2012/13, a fee of \$355 is to be charged for the preparation of lease documents.
Department of Natural Resources and Mines registration fees	Lessees to remain responsible for these registration fees.
Council rates and charges	Lessees will be responsible for all council issued rates and utility charges. Council will provide donations to assist organisations with these expenses in accordance with the proposed Donations in Lieu of Rates Policy.
Unitywater charges (council's water provider)	Lessees will be responsible for all Unitywater charges, including water consumption (excluding water used on sporting fields). Council will provide donations to assist organisations with these expenses in line with the proposed Donations in Lieu of Rates policy.

Source: Adapted from MBRC (2012g).

It is important to note that in standardising the fees and charges across the region, as outlined in Table 7.19, it will not be possible for MBRC to avoid the imposition of new costs on some community and sporting groups.

#### 7.5.6 COUNCIL SUPPORT

Developing a consolidated approach to land tenure could not be finalised until a similar consolidation process was completed in relation the financial support provided to sporting and community groups through Council's Donations in Lieu of Rates policy. Historically, the three former councils all had different arrangements for assisting groups with the costs associated with rates and utility charges, including water consumption. Council was required to develop a consistent approach to this policy in order to maximise the accuracy of the estimated financial impacts of the consolidated land tenure policy.

#### 7.5.7 IMPLEMENTATION

A consolidated land tenure policy represents a significant change in the delivery of services to the many community and sporting groups in the Moreton Bay region. In many cases this new policy means that a group will be required to negotiate a new agreement with council, pay fees and charges they have not paid previously, and partner with council in ensuring the ongoing maintenance of the council asset they use. In order to minimise the inconvenience and disruption experienced by community and sporting groups, council developed a change and implementation plan. It is anticipated that the implementation of this new policy will take approximately two-and-a-half years to complete. This estimate was based on:

- The number of community groups affected by this new policy;
- Current level of expertise and resourcing of council's community leasing unit;
- Administration tasks associated with the preparation and approval of new legal documentation; and
- Time for this material to be sent and explained to each community organisation, and then returned to council.

Given this time frame, council officers suggested that implementation of this new policy would be based on the following priorities:

1. Transfer organisations on the former Caboolture Shire Council 'guidelines' onto formal tenure arrangements (54 agreements).
2. Renew, under the new policy, any leases and licences which have expired or will expire by 30 June 2013 (101 agreements).
3. Re-negotiate and sign new leases and licences under the new policy for all other current agreements on expiration (95 agreements).

Council will also be required to effectively communicate the changes to each community and sporting group. Various tools have been developed for this purpose, including media releases and fact sheets for key messages. A 'Question and Answer' resource has also been developed for council officers who may receive enquiries from local residents. Meetings with individual community and sporting groups will also be an option if required.

## **7.6 CRITICAL APPRAISAL**

Dollery, Grant and Kortt (2012, p. 25) observed that 'structural reform under the guise of forced amalgamation has always been the chief policy response by Australian State and Territory governments to real, perceived and occasionally manufactured problems with local councils'. They also pointed out that one of the economic reasons 'often put forward in support of local government amalgamation is that larger, consolidated councils economise on their direct costs of administration, [that is], council amalgamations will reduce administrative costs' (p. 32).

A positive analysis of the abovementioned case study can only conclude that amalgamation has imposed significant 'start-up' administration costs on council, and ultimately the community, in relation to asset management and land tenure. The main cost was staff time. Council officers were required to undertake various data consolidation tasks, establish new systems and business processes, and implement this consolidated approach to asset management across the organisation. In addition to staff costs, there was cost associated with purchasing and implementing new asset

management IT systems and software, and modifying existing IT infrastructure such as council's GIS system so that one system could 'talk' to the other. Similarly, council incurred significant labour costs in the consolidation of MBRC's approach to land tenure. Furthermore, it is likely that these 'start-up' administration costs will continue to be incurred by council for a number of years. Unfortunately it is very difficult to quantify these costs. No records or estimates of these cost exist, as these tasks were all part of the amalgamation process.

This leads to the question of whether scale economies in administration of asset management and land tenure will be realised over the medium to long term to offset these initial start-up administration costs. This question was asked as part of a case study of the impacts of amalgamation at the Central Highlands Regional Council in central Queensland by Aulich et al. (2011b, p. 110). Their normative response was 'while there may be cost savings in the longer term, it is virtually impossible to quantify them at this stage because of the significant implementation costs imposed' by various immediate amalgamation tasks. They also suggested that forced amalgamations 'required amalgamating councils to incur millions of dollars in costs without any compensation, thus cancelling out any efficiency gains at least for several years' (Aulich et al. 2011b, p. 120). It can therefore be argued that, at the very least, this MBRC case study and the experience of other Queensland councils subject to forced amalgamations contribute to the 'open scepticism' of amalgamation described by Dollery, Grant and Kortt (2012, p. 25) in relation to scale efficiencies in administration resulting from amalgamation.

Whilst a positive analysis of this case study can only highlight the basic fact that amalgamation created costs associated with the implementation of a consolidated approach to asset management and land tenure, the case study raises important normative questions about the effectiveness of forced amalgamations as an instrument of local government reform. As noted in Chapter 5 of this thesis, Aulich et al. (2011a, pp. 21–22) argued that 'the 2007-08 Queensland amalgamations can be seen to represent a decisive shift in the debate about structural reform. From the outset the priority was to create a more robust and capable system of local government, with no mention of economies of scale or reducing rates' or to 'enhance the 'strategic capacity' of councils. Furthermore, 'strategic capacity refers to the ability of local governments to



identify and respond to the influences and pressures affecting the community's future, set key directions and priorities and develop strategies to achieve the outcomes the community wants' (Aulich et al. 2011b, p. 18).

Can it be argued from this case study that amalgamation has been effective in achieving the goal of enhanced strategic capacity in the areas of asset management and land tenure? The answer is a qualified 'yes'. As mentioned above, amalgamation provided an opportunity for best practice in asset management to be implemented in the new MBRC and it can be argued that the size of this new council provided the financial capacity to utilise new asset management IT software and systems in an efficient way.

Whilst amalgamation also provided an opportunity to streamline council's land tenure arrangements, the key improvement in this area of council's operations was the 'in-house' financial analysis that was available and utilised by the council to assist in determining its consolidated approach to this issue. It would be unlikely that this level of expertise would have been available and/or applied in each of the former three councils to a review of council's land tenure arrangements. Despite this, it is important to ask the question: Was the community dissatisfied with the levels of service provided in these areas of council's operations prior to amalgamation and should structural reform options other than amalgamation be considered such as shared service, joint arrangements and other forms of council collaboration? This fact has been acknowledged by Aulich et al. (2011b, pp. 120–121) in that 'alternatives to forced amalgamations that may have achieved similar objectives were never fully explored' as part of the reform process.

## **7.7 CONCLUDING REMARKS**

MBRC's development of a consolidated approach to asset management and land tenure are further examples of the complex political and operational matters resulting from involuntary amalgamation. Whilst it is acknowledged that the problems faced by MBRC were in part determined by the asset management and land tenure practices of the three previous councils, this is no doubt that MBRC officers were required to expend significant time and resources establishing systems and procedures post-amalgamation. Notwithstanding this cost, it can also be argued that the establishment of

a newly amalgamated council provided a unique opportunity to introduce new systems, processes and practices more closely aligned with best-practice principles in asset management and to resolve some of the historical equity issues in local government service delivery.



## 8 CONCLUSION

The main focus of this thesis was a critical evaluation of contemporary local government structural reform in Queensland. The first part of this critical evaluation involved considering the Queensland Government's policy reversal, which occurred in April 2007 when the LGAQ's SSS initiative was terminated and the LGRC was formed. The SSS initiative represented the LGAQ's efforts to proactively deal with the pressures on councils in Queensland to undergo reform. Funded in part by the Queensland Government, the SSS initiative was a 'bottom-up', voluntary and consultative process. It was the LGAQ's policy at the time that amalgamation of councils should take place only if it was voluntary and had the support of the majority of voters. Dollery, Wallis and Crase (2007, p. 1) described the SSS initiative as 'the best example of voluntary cooperation between state authorities and local councils in the history of Australian local government reform'. However, in April 2007, the Queensland Government announced the cessation of the SSS initiative in favour of a program of forced amalgamations, whereby the number of councils was reduced from 157 to 73 and large regional councils were established throughout Queensland.

This thesis has demonstrated that the primary driver for this policy reversal and the forced amalgamations in Queensland was that the Queensland Government wanted a more regional approach to local government. The Queensland Government wanted to establish councils with increased strategic capacity at this regional level because such an arrangement complemented its statutory regional planning framework. It is important to note that this notion of a more regional approach to local government has been challenged previously by Allan (2003), who argued that regional governance responsibilities should rest with state governments and regional policy decisions should be made by the states with input from local governments.

The second part of this critical evaluation of contemporary local government structural reform in Queensland considered the impact of forced amalgamations in Queensland through a case study of MBRC. This regional council was established from the amalgamation of three mostly urban councils north of Brisbane: Caboolture Shire Council, Pine Rivers Shire Council and Redcliffe City Council. It is from this case

study that a number of lessons can be learned about amalgamation as a form of structural reform in Australian local government.

The first is that communities throughout Queensland reacted angrily to forced amalgamations because elected local representatives and their constituents considered this reform to be undemocratic. This thesis has highlighted and discussed this community anger and the undemocratic nature of this reform. In April 2007, when the cessation of the SSS initiative and the establishment of the LGRC were announced, there was a strong negative community response. Up until this point it was likely that the majority of people in Queensland had not heard of the SSS initiative and the work being done by councils on progressing through the SSS Review Framework. However, the announcement of the LGRC and the Queensland Government's intention to proceed with forced amalgamations meant that contemporary local government structural reform in Queensland was transformed from a relatively low-profile, sector based process, to a very high-profile, politicised and controversial public policy issue that attracted local, state and federal media attention.

Communities throughout Queensland attended public meetings and protest rallies, and the LGRC received thousands of submissions (known as 'suggestions') voicing their disapproval at the actions of the Queensland Government. Premier Beattie was dismissive of this community reaction 'declaring that most Queenslanders believed that there were too many politicians in the state' (Odgers and O'Brien 2007, p. 28). The recurring theme of this community action was the undemocratic nature of the LGRC and its proposed process for making recommendations to the state government about structural reform of Queensland local government. So strong was this sentiment that the Howard federal government and Rudd opposition at the time both suggested that referendums be held to give communities 'a say' on council amalgamations.

It is important to note that, as mentioned above, the LGRC process did allow for people to 'have their say' through the submission of 'suggestions'. The LGRC received 47,262 'suggestions'. However, it took the LGRC only approximately two months to finalise its recommendations and so it is improbable that it was able to give these 'suggestions' due consideration. This number of 'suggestions' further highlights the community opposition to forced amalgamations in Queensland.

The community reacted angrily to the recommendations of the LGRC. These recommendations received unprecedented press coverage in local and state print media, and on radio and television, with the LGAQ describing the recommendations as ‘wholesale slaughter’ (Giles 2007, p. 9). In the newly amalgamated MBRC area, the former Redcliffe City Council mayor and councillors were ‘furious Redcliffe will merge with bigger neighbours, Caboolture Shire and Pine Rivers Shire’ (Giles 2007, p. 9). The former mayor of Pine Rivers Shire Council stated that ‘anyone that votes for Beattie after this needs their head read’ (Barrett and Chalmers 2007, p. 8). Protest rallies continued, with 8,000 people converging on Parliament house on 1 August 2007 ‘to protest plans [amalgamations] they say will destroy their way of life’ (Barrett 2007e, pp.2–3). Again the undemocratic nature of these reforms was highlighted when ‘Opposition leader Jeff Seeney pledged to de-amalgamate councils with community support if they came to office’ (Barrett 2007e, pp. 2–3). Finally, some communities in Queensland have an ongoing desire to ‘have their say’ on forced amalgamations as demonstrated in this thesis by the *De-amalgamation Community Alliance* lobbying for the de-amalgamation of the former Redcliffe City Council area.

The second lesson learned is that forced amalgamations in Queensland presented newly amalgamated councils with complex and politically difficult equity problems to resolve. The LGRC and state government made no reference to these matters, nor to the time, cost and community anger associated with making the necessary changes to resolve these problems. This thesis has examined two examples of these equity issues: establishing a consolidated rating policy and a consolidated approach to land tenure at MBRC. At the time of amalgamation, MBRC had three different rating policies from the former Caboolture Shire Council, Pine Rivers Shire Council and Redcliffe City Council areas. From the formation of MBRC in March 2008 until June 2010, council was levying rates and charges using a ‘district’ approach. This meant that MBRC was levying rates and charges using the rating policies of the former councils in each of the former council areas. The ‘district’ approach to rating was creating a significant equity problem, in that similar properties with the same valuation were being charged a different amount of council rates depending on their former council area, and there was a growing community expectation at the time that this should be resolved.

Given this and the importance of rates income to the operations of the newly formed MBRC, a consolidated approach to rating was a high priority. The task of preparing a consolidated rating policy took several months of research, financial modelling and councillor engagement. The research and financial modelling process involved identifying and evaluating the common approaches and the underlying principles of rating policies across all other South East Queensland councils and evaluating the effects of these policies when applied to the MBRC rating base. This information was presented to the council, which provided an opportunity for it to consider, at a strategic level, what categories should be included in the MBRC consolidated rating policy. Detailed financial modelling of these categories was then undertaken to determine the likely impacts on ratepayers and council's revenue base. By taking this approach, council was able to deliver new and innovative rating outcomes for MBRC.

Whilst this consolidated approach to rating presented a unique opportunity for significant reform to the rating practices of the three former councils, its implementation was politically difficult. For example, given the disparity in the former three councils' rating policies, the establishment of one rating policy for MBRC meant that rates for some ratepayers in one former council area would increase, whilst rates for those in another former council area would decrease. These disparate community impacts of MBRC's consolidated rating policy meant that MBRC's consolidated rating policy was a 'good news' story for some councillors, but represented a very difficult political decision for others. Notwithstanding these political difficulties, MBRC's consolidated rating policy was described by the Mayor as 'what all Moreton Bay ratepayers have been eagerly and patiently awaiting since amalgamation – one rating policy for the entire region' (MBRC 2010b, Mayor's Message).

Similarly, at the time of amalgamation there were disparities across the newly formed Moreton Bay region in the lease agreements that council had with community and sporting groups that occupied council land. Not only were lease fees and charges different in the three former council areas but there were different approaches to the maintenance of buildings and sporting fields. For example, in the former Caboolture and Redcliffe council areas, MBRC was essentially maintaining buildings and sporting fields, albeit to varying degrees. However, in the former Pine Rivers Council area, maintenance was the responsibility of the lessee and so a consolidated approach to land

tenure was required. Consequently, the very complex and time-consuming task of reviewing every lease and agreement between council and a community or sporting group was reviewed to determine the roles and responsibilities of each party and the fees/charges payable by the group.

From this point a consolidated approach to land tenure was developed and MBRC is now embarking on a similar transition process as described above for the consolidated rating policy. In this transition some community or sporting groups will be better off under the new land tenure policy for MBRC, whilst other groups may incur additional costs. Furthermore, the new land tenure policy for MBRC has significant cost implications for the council. MBRC's consolidated approach to land tenure is likely to cost council an extra \$2.5m per year, as it will be taking on extra maintenance responsibilities in the former Pine Rivers Shire Council area. This amount does not include any retrospective maintenance activities required to bring council assets in this area up to the required standard.

The third lesson learned is that, in addition to the transaction costs associated with the resolution of the abovementioned equity issues, the MBRC case study demonstrates that other significant transaction costs were associated with the forced amalgamations and the legislative reform being implemented by the Queensland Government at the same time. Dollery, Garcea and LeSage Jr (2008) have noted that it is not uncommon for different types of local government reform to overlap in practice, and this thesis has highlighted how the Queensland Government simultaneously implemented both structural reform through forced amalgamations and legislative reform through the introduction of the new *Local Government Act 2009*.

One of the requirements of this new Act was that Queensland councils adopt a 'long-term community plan'. MBRC's community plan became the cornerstone document of MBRC's new corporate governance framework, as its legislative purpose was to articulate council's ten-year vision for the future of the Moreton Bay region. The *Local Government Act 2009* was very prescriptive in terms of how the community plan was to be developed, including the need for the community plan to be informed by emerging demographic and socioeconomic trends, other regional issues, and the views and opinions of residents.



Such requirements presented some unique challenges for MBRC, which had been in existence for only approximately two-and-a-half years, and work had only just begun since the formation of MBRC in relation to developing a regional outlook for the abovementioned trends and issues. Furthermore, since amalgamation, MBRC had undertaken only one region-wide community engagement activity: a resident satisfaction survey. Therefore only limited data were available in relation to residents' perceptions of the newly created region and their vision of the future of Moreton Bay region.

Therefore, in developing its ten-year vision for the region, the council had to rely heavily on the outcomes from the community engagement activities associated with the community plan project. Community participation in these processes was not as high as it could have been, and it was argued that this may have been in part due to the impact of the amalgamation on residents' sense of belonging and a lack of community identity associated with the new MBRC boundaries. Notwithstanding these difficulties, MBRC adopted its community plan in October 2011. It is important to note that the legislative requirement to have the community plan prepared so soon after the amalgamation placed additional stress on council resources, which were already committed to numerous tasks associated with the establishment and operation of a new regional council.

A further requirement of the new *Local Government Act 2009* was the preparation of a 'long-term asset management plan'. A consolidation of MBRC's approach to asset management was required both as a consequence of the amalgamation and so that council could meet the legislative requirements of the new Act. The transaction costs associated with this consolidation process have been, and continue to be, significant. The formation of MBRC created a council that is responsible for a diverse range of infrastructure assets which had a total value of approximately \$4 billion in 2012. Each of the former three councils had different asset management practices and processes that needed to be understood and evaluated as part of the consolidation process. Council assets need to be identified, re-classified and recorded in a single corporate asset register using one corporate IT system. In addition, council needed to establish business processes for asset condition assessment tasks and develop a consolidated set of maintenance service levels. Finally, progress needed to be made towards the integration

of MBRC's asset management processes and long-term financial planning processes so that adequate provision could be made for asset maintenance, replacement and upgrade into the future.

MBRC's long-term asset management plan provided an excellent foundation from which council current asset management practices could be documented and reviewed using industry best-practice standards. From this point of reference, actions were developed and also included in this plan so there was a 'blueprint' for the consolidation of asset management at MBRC into the future. Notwithstanding the significant staff and other costs associated with this consolidation process, amalgamation provided a unique opportunity for MBRC to benchmark its asset management process against industry best-practice standards and to implement new asset management principles, practices and systems.

The final lesson learned from the MBRC case study is that the amalgamation resulted in significant transaction costs, political difficulties and a very complex operating environment. Several factors contributed to this situation: community anger about the undemocratic forced amalgamation of three councils into one, equity issues that needed to be resolved, the implications of the new *Local Government Act 2009*, and the myriad of tasks associated with establishing and operating MBRC (the third largest council in terms of population in Australia). The new council needed to achieve these 'local government reform-related tasks', and many others, while maintaining the seamless delivery of services to the community.

It is important to note that the abovementioned projects used for the MBRC case study are only examples of the many similar 'local government reform-related tasks' that have taken MBRC years to resolve, and it is expected that it will take many more years for MBRC to finally complete the transition from three councils into one. Furthermore, the MBRC narrative is not unique; every newly amalgamated council in Queensland has been required to face similar challenges.

If we return to the primary reason highlighted in this thesis for the Queensland Government's forced amalgamations in Queensland – notwithstanding the equity issues, political difficulties, transaction costs and operational difficulties associated with this

reform – can it be argued that MBRC has become an example of a regional council with increased strategic capacity? The answer is a qualified ‘yes’. For example, amalgamation has provided an opportunity to develop and utilise improved ‘in-house’ financial analysis in the development of MBRC’s consolidated rating policy and consolidated approach to land tenure. At none of the former three councils would this expertise have been available and/or applied to these areas of council’s operation. Furthermore, as stated above, amalgamation provided the opportunity to implement best practice in asset management, and it can be argued that the size of this new council provided the financial capacity to utilise new asset management IT systems in a more efficient way.

However, even though Queensland may now have regional councils with increased strategic capacity, only time will reveal if this new approach to local government in Queensland will deliver improved outcomes for local communities or whether Allan’s (2003, p. 74) statements prove to be true in relation to local government: ‘... most people believe “small is beautiful”. Residents want *local*, not regional government. Residents also want *microsolutions*, not grand plans’.

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