REPORT ON THE METROPOLITAN LOCAL GOVERNMENT REVIEW PANEL’S (2012) TOWARDS MORE EFFECTIVE LOCAL GOVERNANCE DRAFT FINDINGS REPORT*

EXECUTIVE SUMMARY

1. On 27 April 2012, the Metropolitan Local Government Review Panel published Towards More Effective Local Governance: Draft Findings Report (the ‘draft Robson Report’). Submissions on this document were invited from the public by Friday 25 May 2012 and the Panel will provide a Final Report by June 2012.

2. This Report provides an independent assessment of Towards More Effective Local Governance: Draft Findings Report by Professor Brian Dollery for the Western Suburbs Regional Organisation of Council (WESROC) member councils, comprising Claremont, Cottesloe, Mosman Park, Nedlands, Peppermint Grove and Subiaco.

3. The Report focuses on the controversial aspects of the ‘key findings’ in the draft Robson Report, especially its recommendations regarding radical compulsory amalgamation of the existing 30 Greater Perth local authorities. Given the Panel’s own stipulation that its recommendations will be ‘evidence based’ (i.e. ‘based on thorough investigation and sound research’), this Report will concentrate on evaluating the findings of the draft Robson Report against Australian and international evidence on structural reform in local government.

4. The Report is divided into five main parts:
   - Section 1 introduces the Report
   - Section 2 provides a synoptic outline of the draft Robson Report.
   - Section 3 summarises the academic literature on amalgamation.

*This Report was prepared by Brian Dollery on behalf of New England Education and Research Proprietary Limited for the WESROC group of councils as a strictly independent Report. The opinions expressed in the Report are thus exclusively the views of Brian Dollery and do not necessarily coincide with the views of the WESROC group of councils or any other body. The information provided in this Report may be reproduced in whole or in part for media review, quotation in literature, or non-commercial purposes, subject to the inclusion of acknowledgement of the source and provided no commercial use or sale of the material occurs.
Section 4 summarises the findings of recent Australian public inquiries into local government on the effectiveness of forced amalgamation.

Section 5 evaluates the six most contentious ‘key findings’ of the draft Robson Report.

The Report ends some brief remarks in section 6 outlining an alternative approach to structural reform of the governance of the Perth metropolitan region.

5. The draft Robson Report (2012) advanced 23 ‘key findings’, representing a combination of universally agreed propositions (such as findings 1, 6, 9, 10, 17 and 22), wishful thinking (finding 4) and highly controversial recommendations, often at odds with the empirical evidence and scholarly literature on local government (such as findings 7, 8, 13, 14 and 23).

6. Section 3 of this Report summarises the Australian and international academic literature on the four main claims made by advocates of amalgamation:

- **Significant economies of scale will flow from amalgamation in Australian local government:** This claim has proved largely illusory since (a) empirical evidence is mixed; (b) Australian empirical work was almost uniformly miss-specified and thus did not measure scale economies adequately; and (c) the lack of rigorous evidence of scale economies sheds doubt on using it as the basis for amalgamation; and (d) shared service arrangements can yield the same outcomes at a lower cost.

- **Significant economies of scope flow from amalgamation in Australian local government:** Scope economies represent an a priori theoretical argument against many small local authorities each providing its own services. However, economies of scope can support the concept of smaller municipalities forming entities, like ROCs, to capture scope economies.

- **Improved capacity will flow from forced amalgamations in Australian local government:** There is considerable merit in this argument for small regional and rural councils, but less merit for councils in large urban environments, such as Greater Perth, where these skills can be easily acquired from a competitive pool of consultants, as well as other Perth councils.

- **Administrative cost savings flow from amalgamation in Australian local government:** A fourth economic argument for amalgamation is that large councils economize on the
direct costs of administration. Andrews and Boyne (2009) have found empirical evidence in support of administrative scale economies in English local government, but Boyne (1998) found the opposite in the United States.


8. Section 5 evaluates the six most contentious ‘key findings’ of the draft Robson Report: Findings 7, 8, 11, 13, 14 and 23 are appraised:

**Finding 7 (local identity unrelated to local government):** No supporting evidence was presented by the Panel and it had ignored the literature on the relationships between local councils, a ‘sense of place’ and local identity (see, for example, Malpas, 1999; Grant and Dollery, 2011; Lyons Inquiry, 2006; 2007).

**Finding 8 (primary benefits to be achieved by the proposed reforms of Perth’s local government arrangements):**
• **Increased strategic capacity across the local government sector:** The Panel (p.11) barely makes a case for this claim and no supporting evidence is presented. If we take into account available evidence, as in sections 3 and 4 of this Report, the weight of conceptual and empirical opinion holds that, as a general rule, greater administrative and technical capacity are easier to achieve in larger local government entities. However, the force of this argument is diminished in metropolitan contexts by that fact that sophisticated strategic skills can readily be acquired through the market and from other councils.

• **A more equitable spread of resources across metropolitan Perth and more equitable delivery of services to all residents:** The draft Robson Report adduces no evidence or scholarly literature in support of this claim and its claim falls foul of the weight of the literature on fiscal federalism (Oates, 1972).

• **Reduced duplication and better use of infrastructure:** The draft Robson Report’s case for this proposition is devoid of any supporting empirical evidence or scholarly literature. Given the commitment of the Panel to adhere to ‘evidence-based’ policy formulation, the lack of supporting empirical evidence for these claims is troubling. In particular, claims regarding the post-amalgamation efficiency of the Queensland local government system is especially puzzling since no scholarly evaluation of the consequences of the forced merger program has yet been undertaken in Queensland. Moreover, international evidence indicates that, far from reducing the costs of managerial overheads, the creation of larger local government entities through compulsory consolidation raises these costs since *inter alia* remuneration rates frequently rise to the level of the best paid constituent council (see, for example, Boyne, 1998). In addition, in Australian amalgamation programs, employment is typically guaranteed for council employees for a stipulated post-amalgamation period, usually three years!

• **A streamlined regulatory environment with greater transparency, simplicity, consistency, and certainty with attendant costs savings for all sectors of the community:** The draft Robson Report attempts to justify this empirical claim without adducing any evidence and without reference to any published material. No indication of the magnitude of any cost savings is provided nor is any supporting citation included.

• **Potential to achieve greater economies of scale:** The draft Robson Report substantiates this claim by citing only two studies (Deloitte Access Economics (2011) and Aulich *et al*
In addition, the draft Report (2012, p.12/13) carelessly quotes from Aulich et al (2011) on economies of scope despite trying to justify its claims on economies of scale! Had the draft Report carefully considered Aulich et al (2011, p.10), it would have found the actual findings of this report on concluded little evidence existed on scale economies flowing from amalgamation.

- **Increased influence with State and Commonwealth governments reflected in improved funding for community projects:** While it is hard to dispute this contention, the obvious question is whether the loss of local democracy and the enormous pecuniary costs associated with radical amalgamation merit satisfying higher tiers of government’s desire to deal with large local government entities.

- **The achievement of metropolitan-wide social, economic and environmental goals:** The Panel contends that ‘the large number of small local government areas in metropolitan Perth restricts the ability to effectively deliver positive whole-city outcomes in a coordinated way’ and calls for a radical amalgamation of Perth councils. However, a ‘city-wide’ authority is by no means incompatible with the continued existence of local councils in the greater metropolitan area, as the Greater London Authority has demonstrated.

**Finding 11 (Local Government Commission):** The Panel calls for a Local Government Commission to manage the relationship between State and local government. But given the demands on the WA Treasury, not least the urgent need to upgrade local government infrastructure, the opportunity cost of a Commission is too high to justify its establishment.

**Finding 13:** *(most appropriate options for local government in metropolitan Perth are: 10 to 12 councils centred on strategic activity centres; five councils based on the central area and sub-regions; one single metropolitan council):* The draft Robson Report contends that the ‘most relevant options’ for the future structure of local government in the Greater Perth metropolitan region are threefold: (a) 10 to 12 councils; (b) five to six councils; and (c) one metropolitan council. However, the Panel has yet to decide which option best meets its criteria! The divergence in population size between options (a), (b) and (c) is enormous (i.e. about 170,000, 340,000 and 1,700,000 respectively). A further unsatisfactory aspect of the draft Robson Report is that it has not done any modelling on the three options. Had it estimated the relationship
between council expenditure and council population, it would have found that there is no statistically significant relationship between population and total expenditure per capita if density factors are controlled (with $r^2$ at only 0.29). This *inter alia* refutes any suggestion of the presence of economies of scale, as claimed by the Panel.

**Finding 14:** *(City of Perth should be increased and its role enhanced):* The Panel argues that by increasing its size, the City will boost its capability and responsiveness, diversify its population, and enhance its international standing’. No empirical evidence is presented in support of this policy position and no justification offered for why the City of Perth should advocate either on behalf the Perth metropolitan area or even for WA as a whole.

**Finding 23:** *(Amendments to governance arrangements for local government in metropolitan Perth should include the following: Introduction of compulsory voting at local government elections; Recognition of the leadership role of elected members; Election of Mayors by community; Increased remuneration of elected members; Training for elected members; Clarification of the role of CEO and elected member)*:

*Election of Mayors by community:* The draft Robson Report (p.22) observes that ‘the election of the mayor by the community, the entire electorate, is also a preferred model for the future’, without providing any supportive evidence or relevant citations from the scholarly literature. This is regrettable since not only has the question been considered in depth in the academic literature, but there are also cogent reasons for rejecting the directly elected Mayor model.

*Increased remuneration of elected members:* The Panel (p.22) argued correctly that remuneration of councillors in WA is relatively low and should be increased. If we assume that the Panel has in mind Queensland-style remuneration for councillors and Mayors, and if Greater Perth has ten separate councils following amalgamation – the cheapest option from the perspective of individual councillor remuneration – then each of these entities would be ranked as a Category 7 Council in Queensland with 12 elected councillors (each paid $102,862 plus $2,370 ‘amalgamation allowance’), a Deputy Mayor (paid $116, 577 plus $2,650 ‘amalgamation allowance’), and a Mayor (paid $171,436 plus $3,800 ‘amalgamation allowance’). These calculations do not include other substantial direct costs, such as vehicles and administrative assistants for these representatives (Local Government Remuneration and Discipline Tribunal,
2011). If the Panel intends to recommend remuneration at commensurate levels, then it should explain how this should be ‘sold’ to Greater Perth ratepayers, who will foot the bill.

9. Section 6 concludes the Report by arguing that the Panel has largely ignored the voluminous Australian and international literature on forced amalgamation in local government, as well as the findings of the numerous federal and state public inquiries into local government on the efficacy of amalgamation as an instrument of reform. As a consequence, the Panel has drawn erroneous inferences from the outcomes of previous amalgamation episodes. Moreover, it has neglected to consider the substantial costs of amalgamation and the inescapable question of who will bear these costs. It is thus in error in recommending three models of radical forced amalgamation and should instead have proposed a metropolitan-wide body, along the lines of the Greater London Authority, to deal with broader Greater Perth policy matters. A Perth-wide model of this kind can fruitfully co-exist with existing Perth local councils.
1. INTRODUCTION

On 24 June 2011, WA Minister for Local Government John Castrilli announced the establishment of a formal review of Perth metropolitan local government. A Metropolitan Local Government Review Panel, comprised of Emeritus Professor Alan Robson, Dr Peter Tannock and Dr Sue van Leeuwen, was appointed to (a) investigate the ‘social, economic and environmental challenges facing metropolitan Perth’ and (b) recommend ‘appropriate boundaries and governance models for local governments in the Perth metropolitan area’.

The specific Terms of Reference given to the Metropolitan Local Government Review Panel were sixfold:

- ‘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.
- Identify current and anticipated national and international factors likely to impact in the next 50 years.
- 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.
- Identify new local government boundaries and a resultant reduction in the overall number of local governments to better meet the needs of the community.
- 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.
- Present a limited list of achievable options together with a recommendation on the preferred option’.

The Panel itself developed a further seven ‘principles’ to ‘guide its decision making’:
• **Long-term approach**: The Panel’s recommendations will focus on long term and strategic proposals for local government in the metropolitan area. This approach will ensure Perth is prepared for the future and able to sustain a productive economy, diverse communities and a healthy environment.

• **Community outcomes**: Community wellbeing, both short and long term, will underpin the Panel’s recommendations. Change to local government, if required, should improve metropolitan Perth for the people that live in it, work in it, and visit the area.

• **Equity**: The Panel’s recommendations will seek equity, not only among the residents of the metropolitan area, but equity between generations. Decisions made now should not adversely effect future generations.

• **Clarity**: The Panel’s recommendations will seek clarity as to which level of government, or other organisation, is best placed to provide services to communities. The recommendations will identify funding sources, and provide evidence of the sustainability of any proposed arrangements.

• **City scale**: The Panel will make recommendations for the benefit of metropolitan Perth as a city. While acknowledging the diversity of local communities, and the value of local level governance, the Panel will focus on outcomes that are best for the metropolitan area as a whole.

• **Best city**: The Panel’s recommendations will build on the best of Perth’s attributes, ensuring its future as a sustainable, liveable, attractive, competitive, dynamic and connected city while building its international reputation as one of the world’s most successful cities.

• **Evidence based**: The Panel’s recommendations will be based on thorough investigation and sound research.

The Metropolitan Local Government Review Panel published numerous briefing papers and other background information and it invited submissions from the public and interested parties. On 27 April 2012, it published *Towards More Effective Local Governance: Draft Findings Report* (hereafter the ‘draft Robson Report’). Submissions on this document were invited from the public
by Friday 25 May 2012. After considering these submissions, the Metropolitan Local Government Review Panel will provide a Final Report to the Minister for Local Government by June 2012.

The present Report represents an independent assessment of Towards More Effective Local Governance: Draft Findings Report under taken by Professor Brian Dollery at the behest of the Western Suburbs Regional Organisation of Council (WESROC) member councils, which comprise the Town of Claremont, the Town of Cottesloe, the Town of Mosman Park, the City of Nedlands, the Shire of Peppermint Grove, and the City of Subiaco. It should be stressed the views expressed in this Report do not necessarily reflect the views of these local councils.

For the sake of brevity, this Report focuses on the more controversial aspects of the ‘key findings’ of the draft Robson Report, especially its highly contentious recommendations regarding the need for the radical compulsory amalgamation of the existing 30 Greater Perth local authorities. In the light of the Panel’s own stipulation that its recommendations will be ‘evidence based’ (i.e. ‘based on thorough investigation and sound research’), this Report will concentrate on evaluating the findings of the draft Robson Report against Australian and international evidence on structural reform in local government.

The Report is divided into five main parts. Section 2 provides a synoptic outline of the draft Robson Report. Section 3 provides a brief summation of the consensus in the academic on the efficacy of amalgamation. Section 4 provides a précis of the findings of recent Australian national and state public inquiries into local government on the effectiveness of forced amalgamation. Section 5 evaluates the six most contentious ‘key findings’ of the draft Robson Report. The Reports ends some brief remarks in section 6 outlining an alternative approach to structural reform of the governance of the Perth metropolitan region.

2. SYNOPTIC OUTLINE OF KEY FINDINGS IN DRAFT ROBSON REPORT

The draft Robson Report (2012) advanced 23 ‘key findings’, representing a composite of universally agreed ‘motherhood’ propositions (such as findings 1, 6, 9, 10, 17 and 22), wishful thinking (finding 4) and highly controversial recommendations, often at odds with the empirical evidence and scholarly literature on local government (such as findings 7, 8, 13, 14 and 23). These ‘key findings’ are replicated verbatim below:
1. ‘Enhanced strategic thinking and leadership across the State and local government sector and the wider community will be required to manage the extraordinary growth of metropolitan Perth over the next 50 years.

2. The current local government arrangements will not provide the best outcomes for the community into the future. The status quo cannot and should not remain.

3. There is a need for significant change in Perth’s local government, including changes in local government structures, boundaries and governance.

4. The Panel envisages the outcome of the Review to be a stronger, more effective, more capable local government sector, with an enhanced role and greater authority.

5. Uncertainty about the future needs to be addressed by prompt and decisive government decision making.

6. A shared vision for the future of Perth should be developed by the State government, together with local government, stakeholder and community groups.

7. A sense of place and local identity can be maintained through appropriate governance regardless of the size of a local government.

8. The primary benefits to be achieved by the proposed reforms of Perth’s local government arrangements include:
   - increased strategic capacity across the local government sector;
   - a more equitable spread of resources across metropolitan Perth and more equitable delivery of services to all residents.;
   - reduced duplication and better use of infrastructure;
   - a streamlined regulatory environment with greater transparency, simplicity, consistency, and certainty with attendant costs savings for all sectors of the community;
   - potential to achieve greater economies of scale;
   - increased influence with State and Commonwealth governments reflected in improved funding for community projects;
   - the achievement of metropolitan-wide social, economic and environmental goals.

9. The structure and governance arrangements for local government in Perth cannot be considered in isolation from the role and function of local government, and from the relationship between State government and local governments.
10. Some functions need to be managed from a metropolitan-wide perspective, including waste disposal and treatment, transport and planning. A shift in responsibility to the State government may be warranted.

11. Consideration should be given to establishing a Local Government Commission, comprising an Independent chair and persons with significant State and local government experience, to manage the relationship between State and local government, and to oversee implementation of the reform process.

12. A redefined local government would have its role enhanced including re-empowerment in local planning.

13. The most appropriate options for local government in metropolitan Perth are:
   - 10 to 12 councils centred on strategic activity centres
   - five councils based on the central area and sub-regions.
   - one single metropolitan council

14. In any future model, the size of the City of Perth should be increased and its role enhanced.

15. It is important to make significant change and create a new structure with robust boundaries to minimise the need for further debate and change in the short to medium term.

16. Once a new structure is settled, there should be periodic boundary reviews undertaken by an independent body, to ensure the local government structure is optimal for meeting the changing needs of a growing metropolitan region.

17. The creation of larger local governments alone will not address all the shortcomings of the present system.

18. Local government's ability to connect to the community is an important asset. In any new local government structure for metropolitan Perth, community engagement must be strengthened, to improve accountability and reduce the power of special interest groups.

19. Local government must invest in mechanisms that encourage the whole community to participate. Consideration must be given to the development of formal community engagement networks, which may include the adoption of new institutional arrangements and structures to ensure adequate community engagement and access to council.
20. If the new local government structure for metropolitan Perth comprises more than one local government, a Forum or Council of Perth Mayors should be created, chaired by the Lord Mayor.

21. The role of elected members should be reshaped to enhance their capacity for strategic leadership and reduce their involvement in operational matters.

22. The potential for council controlled organisations/local government enterprises should be further considered.

23. Amendments to governance arrangements for local government in metropolitan Perth should include the following:
   - Introduction of compulsory voting at local government elections
   - Recognition of the leadership role of elected members
   - Election of Mayors by community
   - Increased remuneration of elected members
   - Training for elected members
   - Clarification of the role of CEO and elected members’.

Many of these findings would command widespread assent since they not only accord with commonsense, but also do not run counter to the scholarly literature on optimal local governance. For instance, no-one would seriously question the thrust of Finding 1 which underscores the need for ‘enhanced strategic thinking and leadership across the State and local government sector and the wider community’ in the years ahead. Similarly, it is hard to meaningfully gainsay Finding 6 which calls for ‘a shared vision for the future of Perth’ to be cooperatively developed ‘by the State government, together with local government, stakeholder and community groups’. In an analogous vein, few people would question Finding 9 which holds that ‘the structure and governance arrangements for local government in Perth cannot be considered in isolation from the role and function of local government, and from the relationship between State government and local governments’. While somewhat at odds with the open-slather ‘bigger is better’ view of local government, epitomised in the radical 2007 Queensland amalgamation blitzkrieg, Finding 17 (‘the creation of larger local governments alone will not address all the shortcomings of the present system’) fits comfortably with the weight of evidence on the efficacy of structural reform as a means of resolving problems in local government.

Finally, given the gravity of the financial stress facing many Australian local authorities, which
has been well-documented in a host of national and state-based public inquiries into local
government over the past decade, and the urgent need for additional sources of funding. Finding
22 recommending the exploration of the potential for council controlled organisations/local
government enterprises is eminently sensible.

However, in stark contrast to the reasonable nature of these findings and their congruence with
Australian and international empirical evidence, a number of other findings are not only highly
controversial, but also at odds with the weight of available evidence. We thus assess these
findings in detail on the basis of the extant scholarly literature in section 3 of this Report and the
findings of the various national and state public inquiries in section 4 of this Report.

3. ACADEMIC FINDINGS ON THE EFFICACY OF AMALGAMATION

A wealth of scholarly literature exists on both the theoretical aspects of council consolidation as
well as its empirical dimensions. Given the fundamental need for informed public policy making
to be ‘evidence-based’ – as the Metropolitan Local Government Review Panel agreed – it is thus
essential that any proposed structural changes to local government take full account of this
academic literature, especially if the changes represent radical forced amalgamation as advocated
in the draft Robson Report. It is thus dispiriting to discover that the draft Robson Report has
barely touched on this literature, citing a mere three scholarly papers (Aulich et al., 2011;
Sansom, 2009; and Mant, 2011), with only one of these papers in the peer-reviewed literature!

Had the Panel consulted the scholarly literature, it would have established that, despite the fact
that the doctrine that ‘bigger is better’ in local government still seems to represent the traditional
consensus amongst many state and territory local government policy makers, including the
current WA Minister for Local Government, successive episodes of council amalgamations in
Australia over the years have eroded this consensus to the point where open scepticism amongst
the broader local government community has become the order of the day, especially in non-
metropolitan areas of the country. In large part, this cynicism derives from a deep
disillusionment with the observed real-world outcomes of actual amalgamation programs. For
example, despite extravagant claims from proponents of both the South Australian and Victorian
council mergers in the ‘nineties, the economic results of these programs have been most
disappointing. Thus, while the Victorian government claimed at the time that its radical reform
process would generate direct cost savings of 20%, the actual outcome has been a mere 8.5%, most of which has flowed from competitive tendering and not the restructuring program (Allan, 2003, p. 75). In much the same way, the South Australian authorities heralded savings of 17.4%, but in fact only achieved 2.3% (Allan, 2003, p. 75).

It should also be added that these realised savings did not take into account some of the direct costs of amalgamation, such as the substantial costs of transforming several small local authorities into a single large entity. For instance, in the case of the 2007 Queensland forced amalgamation program, affected councils estimated transformation amounted to around $185 million, were still recurring, and represented a matter of serious concern for the Queensland Treasury (Queensland Treasury, 2009). In addition, estimated savings neglected the indirect costs of council consolidations, such as lower economic activity and falling employment in rural and regional areas, and increased travel time in metropolitan areas. As a consequence of these disappointing outcomes, the Australian local government community is no longer convinced that municipal restructuring based primarily on amalgamation represents an effective means of improving council performance.

This scepticism is widespread. For instance, following the NSW Government Inquiry into the optimal structure of local government in the Sydney metropolitan area, the Inquiry Commissioner (2001, p.36) concluded the purported benefits of amalgamation that were derived from empirical evidence were ‘suggestive rather than conclusive’. Moreover, in their analysis of both the international literature and Australian experience on municipal consolidation, Dollery and Crase (2004, p. 274) have argued that ‘there are scant grounds for anticipating substantial financial benefits to flow from amalgamation, except possibly in terms of local government capacity and scope economies’.

In a similar vein, in his assessment of the outcomes of recent council amalgamation programs in New Zealand, Australia (and more particularly Victoria and Tasmania), Britain and Canada (especially Nova Scotia and Ontario) in his book Merger Mania, Sancton (2000, p. 83) concluded that ‘the efficient delivery of municipal services does not require large municipalities’. Allan (2003, p. 80) has also presented a strong case that in Australia ‘at the administrative level the efficiency and effectiveness of a local council is not a function of size’ and ‘all the empirical evidence suggests that big is not better when it comes to local

While the weight of the literature falls overwhelmingly against amalgamation as an efficacious means of improving local government performance, it must be stressed that this view is not unanimous. Scholarly work in full or partial support of council consolidation as an effective instrument of local government reform takes two main forms:

One school of thought contends that municipal mergers achieve some, but not all, of its intended aims. For example, contributors to Leland and Thurmaier’s (2010) City-County Consolidation: Promises Made, Promises Kept examined nine case studies of amalgamation in the United States. Summarising the findings, Leland and Thurmaier (2010, p.299) observed that while ‘economic development promises have largely been kept’, by contrast ‘promises of increased efficiency have not’.

A second less equivocal view holds that, on balance, municipal mergers do yield benefits. For instance, in their Local Government Consolidation in the United States, Faulk and Hicks (2011) provide an empirical analysis of council consolidation for different kinds of local government entity and find that amalgamation generates a range of benefits, especially in terms of improved administrative and technical capacity.

Why has council amalgamation failed to improve the effectiveness of Australian local government? Dollery et al. (2006) have identified four main economic arguments typically advanced in favour of amalgamation and assessed the problems surrounding these arguments in the Australian local government milieu.

**Significant economies of scale will flow from amalgamation in Australian local government**

This claim has proved largely illusory. The term ‘economies of scale’ refers to a decrease in average cost as the quantity of output rises and scale economies are frequently cited as a rationale for larger council jurisdictions. Accordingly, the bigger the jurisdictional unit, the lower will be the per capita costs of service provision. In comparison to its counterparts in comparable countries, excepting New Zealand, Australian local government has a predominantly ‘services to
property’ orientation in terms of the goods and services it provides. However, despite its relatively narrow range, Australian local governments still provide a wide range of goods and services that are produced by heterogeneous technological means, ranging from labour-intensive to capital-intensive. Thus, for a given benefit region for a given type of service, there is no \textit{a priori} reason for different goods and services to exhibit the same cost characteristics.

By contrast, there is every reason to expect that no uniform pattern of economies of scale will emerge across the range of goods and services produced by Australian councils. For example, it is highly unlikely that the optimal service district for libraries will coincide with, or even resemble, optimal service districts for, say, domestic garbage collection, public parks, or sewage treatment services. Thus while larger councils may capture economies of scale in some outputs, they could equally reap diseconomies of scale in other areas. Sancton (2000, p. 74) has crystallized the argument as follows: ‘There is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas’.

After evaluating the international and Australian empirical evidence on economies of scale in municipal service provision, Byrnes and Dollery (2002) drew three main conclusions:

- ‘Given the mixed results that emerge from the international evidence, it seems reasonable to conclude that considerable uncertainty exists as to whether economies of scale do or do not exist’ (Byrnes and Dollery, 2002, p. 405).
- Existing Australian empirical work was almost uniformly miss-specified and thus did not measure scale economies adequately.
- Finally, from a policy perspective, the lack of rigorous evidence of significant economies of scale in municipal service provision shed ‘considerable doubt on using this as the basis for amalgamations’.

Thus while ‘advocates of amalgamation have based their arguments on the proposition that substantial efficiency gains would flow from the formation of larger local authorities’, it is obvious that the ‘research on economies of scale in local government does not support this proposition’ (Byrnes and Dollery, 2002, p. 405).

In this regard, it should be noted that the 2004 NSW amalgamation program invoked the work of Stephen Soul (2000) in his empirical analysis of the relationship between size and per capita
service costs in NSW local government. However, as Byrnes and Dollery (2002) have demonstrated, simple statistical correlation between population size and total council costs per capita does not properly measure economies of scale, a point taken up in section 5 of this Report.

Even where economies of scale are significant, this may still not be relevant to optimal municipal size if provision of the service can be separated from production of that service (the purchaser-provider split) because scale economies typically only arise during the production phase. Municipal councils too small to achieve all economies of scale on their own can nevertheless accrue the advantages of any scale economies by purchasing the good or service in question from other public agencies or private firms large enough to secure economies of scale.

By forming shared service arrangements with other local councils (through Regional Organizations of Councils, Strategic Alliances and similar institutional vehicles), securing services from other levels of government, or by contracting out service provision to private sector firms, small local councils can acquire the quantity and quality of services desired by their limited number of constituents and simultaneously enjoy the cost advantages deriving from scale economies in production, especially in large metropolitan areas, such as Perth.

**Significant economies of scope flow from amalgamation in Australian local government**

Economies of scope refer to the economic advantages which derive from providing a broad range of goods and services in a single organization, like a local council. In particular, economies of scope arise when the cost of producing a given set of services in a single organization is lower than the cost of those services being produced by a number of specialized organizations. The standard explanation for this lower cost of production derives from the fact that a single organization can attribute the cost of fixed inputs or ‘overheads’, like central administrative staff, computing facilities, and so forth, across many of the services it produces. Thus, if related services are provided by a single council, lower total production costs may follow (Dollery and Fleming, 2006).

In the context of the Australian local government amalgamation debate, scope economies represent an *a priori* theoretical argument against many small local authorities each providing its own services. It is also an argument against the fragmentation of existing large municipalities into several fully autonomous or privatised business units. However, economies of scope can
support the concept of several small and adjacent municipalities forming some umbrella organization, like ROCs, in an attempt to capture scope economies.

**Improved capacity will flow from forced amalgamations in Australian local government**

A proposition sometimes advanced in the Australian debate over amalgamation is that larger councils tend to possess greater levels of administrative and other expertise, in part due to the fact that their size permits the employment of specialist skills that cannot be acquired readily by smaller municipalities. Given the increasing burden placed on Australian local government by its state and federal counterparts, through cost shifting and other activities, it is held that this confers a significant advantage on larger municipal units because it enables them to accomplish a wider and more complex range of tasks in a more efficient manner. There seems to be considerable merit in this argument. In particular, small regional and rural councils do struggle in terms of expertise and cannot always use consultants in an effective and prudent way. On the other hand, the force is this argument is diminished in large urban environments, such as Greater Perth, where these skills can be easily acquired from a competitive pool of consultants, as well as other Perth councils, as the need arises. However, since it is in many respects a variant of the economies of scope argument for amalgamation, many of the same reservations apply. For instance, ROCs may also be able to pool their resources to acquire the skills in question, at no greater cost than to single and larger councils.

**Administrative cost savings flow from amalgamation in Australian local government**

A fourth economic argument put forward in support of local government amalgamation is that larger consolidated councils economize on their direct costs of administration and the compliance costs imposed on individuals who participate in the municipal political process. Administrative costs include compensation paid to elected and appointed officials and staff and the overheads (buildings, supplies, utilities, etc.) required to support those officials.

If it is argued that council amalgamations will reduce administrative costs, then this is analogous to arguing that there are economies of scale in the administration of local government, just as there may be scale economies in the production of public services. Andrews and Boyne (2009) have found empirical evidence in support of administrative scale economies in English local government. However, there is no guarantee that such opportunities will always, or even usually, exist. It could just as easily be argued that administrators become less effective the further
removed they are from their constituents and operations they are supposed to coordinate. If this is the case, then diseconomies of scale could result, with larger governments requiring proportionately more administrators (perhaps with more layers in the administrative hierarchy). Administrative scale economies could thus be a factor in favour of both larger and smaller local government units. The existence or otherwise of administrative economies therefore becomes a purely empirical issue.

However, it can be argued on grounds of public choice theory that greater difficulties are involved in monitoring large municipalities. Ratepayers (as voters) cannot easily acquire the necessary information to assess whether or not councils are providing ‘value for money’. By contrast, smaller councils are often less complex operations with a greater degree of transparency and consequently more amenable to scrutiny by ratepayers. If smaller municipalities are indeed subject to closer and more informed scrutiny, then it can be anticipated that they could experience greater public pressures to deliver local public goods more efficiently (see, for example, Boyne, 1998 and Bailey, 1999).

Some empirical support exists for this contention. After a study examining American empirical evidence on this question, Boyne (1998, p. 252) concluded that ‘the broad pattern of evidence suggests that lower spending is a feature of fragmented and de-concentrated local government systems’. By contrast, ‘consolidated and concentrated tend to be associated with higher spending’. Sancton (2000, p. 75) reached the same conclusion: ‘The public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city-region causes wasteful overlap and duplication’.

4. PUBLIC INQUIRY FINDINGS ON THE EFFICACY OF AMALGAMATION

While it explicitly holds that the Panel will ensure that its findings are ‘evidence based’, a most unfortunate feature of the draft Robson Report resides in the fact that it has ignored the wealth of evidence on the efficacy of structural reform revealed in the host of national and state-based public inquiries held across Australia in the past decade. This is a serious deficiency, as we shall see in section 5.

In chronological order, at the state level we have witnessed the South Australian Financial Sustainability Review Board’s (FSRB) (2005) *Rising to the Challenge* Report, the Financial


Many of these inquiries tackled the thorny question of whether or not structural reform through council amalgamation had proved to be an efficacious method of enhancing the performance of local government. Indeed, a wealth of evidence was produced assessing the effectiveness of amalgamation. It is thus disappointing that draft Robson Report simply ignored this valuable body of evidence. In the hope that the final draft of the Robson Report will remedy this neglect, it worth providing a brief outline of the findings of these public inquiries on amalgamation.

In general, the mass of material in these inquiries into can be divided into five main categories developed by Dollery, Garcea and LeSage (2008): (a) financial reforms; (b) functional reforms; (c) jurisdictional reforms; (d) organisational and managerial reforms; and (e) structural reforms. Given the heavy emphasis in the draft Robson Report on compulsory consolidation, we will focus on the findings of the inquiries on structural reform. Following Dollery, Garcea and LeSage (2008), in this Report we use the term ‘structural reform’ to mean changes to the boundaries, numbers and types of local authorities.

- In general, large councils had 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’. In addition, ‘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’.
- Amalgamations yielded ‘savings’ as evidenced in the SA and Victorian amalgamation episodes, WA projections that structural reform of small councils could produce ‘notional annual savings’ of a total of $74.4 million or 5.2 per cent of total municipal expenditure and sizeable ‘savings projections’ from five NSW mergers.

However, this was immediately followed by an evaluation of ‘why amalgamations may not work’. Three main lines of argument were pursued in the Hawker Report (2003, p.89):

- The ‘multitude of challenges’ confronting ‘small rural councils’ often mean that ‘amalgamations are not viable’.
- Amalgamation is not a panacea; other structural solutions involving ‘mentoring with a larger more prosperous council’ or ‘membership of a regional organization of councils’ are superior.
- ‘Continued cost shifting’ by state governments diminished the efficiency enhancing effects of amalgamation.

The Hawker Report (2003:90) made two recommendations: Recommendation 13 stated that ‘the Commonwealth Grants Commission, in consultation with the LGGCs in each State, assess the efficiencies of amalgamations or regional cooperation of local government, and use available mechanisms to adjust FAGs grants for the benefit of the sector at large’. In order to encourage mergers, ‘councils should not be financially penalized through a net loss of FAGs for the benefit of the sector at large’. Recommendation 14 held that the Commonwealth ‘continue to develop partnership arrangements with local government on the delivery of Federal programs and service
delivery; and as appropriate, engage established regional organizations of councils, or similar regional bodies, which have demonstrated capacity, in regional planning and service delivery’. 

**South Australian Financial Sustainability Review Board Report (2005):** The FSRB (2005) drew various conclusions on amalgamation. It found that ‘there is no strong relationship between a council's organisational size and either a strong financial position or a good annual financial performance’ (FSRB, 2005, p.49). Moreover, ‘the size and density of councils played little role in explaining the observed differences in the sustainability of the long-term financial performance and position of councils’. It thus concluded that ‘because relative growth rates, size and density of councils altogether explain only a fraction of the differences observed in the sustainability of the long-term financial performance and position of councils, other financial characteristics must be more important contributors’.

The FSRB (2005, p.85) also evaluated the claims made by the SA Local Government Boundary Review Board, prior to its structural reform program which reduced the number of councils from 118 to 68 in the post-1995 period, especially the forecast ‘recurrent savings’ of $19.4 million per annum and ‘one-off savings’ of $3.9 million. The FSRB (2005, p.85) found that ‘whether the ongoing savings have in fact continued is a moot point’ since ‘fewer, larger councils are not the instant or easy fix that many would like to believe’, particularly in ‘non-metropolitan areas dominated by the “tyranny of distance” and other impediments’.

The FSRB (2005, p.85) concluded that amalgamation produces ‘considerable costs and often exaggerated benefits’. Alternative models of council cooperation should thus be pursued, since there are ‘many intermediate forms of cooperation/integration among councils, with amalgamation being the most extreme (and confronting) form of integration’. The FSRB (2005, p. 85) found that numerous ‘voluntary arrangements’ in shared services and joint enterprise had proved successful in SA, with both regional organisations of councils and area integration models the best models for council cooperation.

**Independent Inquiry into NSW Local Government Report (Allan Report) (2006):** Chapter 10 examined the question of council size and efficiency which underpinned the case for council mergers. It observed *inter alia* that amalgamations had been based on ‘the primary rationale that larger councils with larger populations could exhibit greater economic efficiencies’ because
bigger councils would exhibit ‘lower administrative costs, smaller unit costs of representation, increased purchasing power, improved utilisation of depots, plant and equipment and draw from a more diverse funding base’ (Allan Report, 2006, pp. 259/60). The Report (2006, p. 261) noted that uncertainty existed on this claim and it had a ‘sound empirical basis’. It concluded that ‘achieving increased economies of scale and greater efficiencies through forcible amalgamation seems questionable and generally not desirable’.

**Queensland Size, Shape and Sustainability Review Framework (2006):** Chapter 4 considered structural change in Queensland. It proposed four different options: ‘Merger/amalgamation’; ‘significant boundary change’; ‘resource sharing through service agreements’; and ‘resource sharing thorough joint enterprise’. It argued that the benefits from mergers included a ‘sufficient resource base’, a reduction in the ‘total costs of government’, scale economies, lower staff levels, rationalisation of assets, ‘cross-border’ facility and service utilisation, better promotion of economic development, increased political lobbying power, and ‘full-time’ elected representatives. Costs embraced ‘exposure’ to liabilities of other councils, fewer grants, high costs of ‘integrating’ constituent councils, integrating ‘widely differing organisational cultures’, creating ‘differing levels of service in some areas’, and diluting representation. Chapter 4 stressed the importance of the ‘voluntary’ nature of any amalgamation proposal to its ultimate success.

**Western Australian Systematic Sustainability Study (2006):** Chapter 8 considered council amalgamation as part of the broader range of alternative models. It argued that a ‘state/territory’ model and an ‘industry-owned service provider’, which delivered selected services on a regional basis for member councils, were the most promising options. The Report was emphatic on mergers, noting that ‘there was little prospect that forced amalgamations would achieve any lasting community benefit’ on grounds that ‘there is a growing literature and operating experience to this effect elsewhere in Australia’ (WALGA, 2006, p. 70). In short, Chapter 8 argued that the main benefits which purportedly derived from amalgamation ‘can be obtained by methods other than enforced structural reform’.

**PriceWaterhouseCoopers Report (2006):** With respect to amalgamation, PWC (2006) drew three main conclusions:
• PWC (2006, p. 72) argued that while ‘structural reform through amalgamations is necessary in some instances, each potential amalgamation needs to be assessed carefully to avoid the risk of simply creating large inefficient councils’. It stressed the fact that ‘remote councils’ faced ‘higher cost structures’ largely due to the tyranny of distance, which no amalgamation process could remove.

• PWC (2006, p.75) concluded that ‘mergers can bring greater financial strength and stability to councils, however, simply merging a number of adjoining unviable councils is unlikely to increase financial sustainability to the stage where there is a single viable council and it may decrease effectiveness and result in greater disputes between councillors based on parochial interests’.

• PWC (2006, p.149) contended that ‘efficiency, effectiveness and scale’ could be improved through regional service provision, shared service arrangements, outsourcing, state-wide purchasing initiatives, and the like, rather than amalgamation.

**Local Government Association of Tasmania Review (2007):** LGAT (2007, p. 65) argued that forced amalgamations were unlikely to achieve ‘lasting community benefit’. Moreover, while small councils often ‘lack administrative and technical capacity compared with larger councils’ and ‘council amalgamations will generate a greater range of services and improved quality of service’, the ‘main benefits of amalgamation can usually be obtained by methods other than enforced structural reform’, mostly ‘resource sharing and pool-style arrangements’. Following WALGA (2006), it recommended that Tasmanian local government should investigate (a) a ‘state/territory’ model comprising a ‘two-tier local and regional government’ and (b) ‘sector-owned service providers’.

In general, the most interesting aspect of the deliberations of the public inquiries on structural change is that they echo scepticism in the academic literature on compulsory council consolidation. Indeed, the weight of opinion in the public inquiries suggests that the traditional Australian stress on council mergers has been misplaced.

**5. EVALUATION OF CONTROVERSIAL UNSUBSTANTIATED FINDINGS**

In section 5, we assess the most controversial ‘key findings’ in the draft Robson Report against Australian and international evidence outlined in section 3 and section 4. In each case, the
specific findings is reproduced *verbatim*, supporting argumentation provided in the draft Robson Report summarised, and then evaluated in the light of available evidence. Findings 7, 8, 11, 13, 14 and 23 are appraised:

**Finding 7:** A *sense of place and local identity can be maintained through appropriate governance regardless of the size of a local government.*

No evidence whatsoever is presented in support of this assertion. Indeed, the Panel (p.10) barely engages in argument, apart from noting that ‘many residents want to preserve the sense of place and local identity of their local area’. The Panel then claims that local government somehow bears no relationship to local identity: ‘There are many ways to experience a sense of place and maintain a sense of identity... [and] ...the Panel believes that this is not under threat from local government reform’ since ‘identity and history would remain regardless of which local government is responsible for managing the locality’!

At least two comments are warranted. In the first place, a sophisticated theoretical literature exists on the relationships between local councils, a ‘sense of place’ and local identity (see, for example, Malpas, 1999; Grant and Doleary, 2011), which includes the contemporary concepts of ‘place-making’ and ‘place-shaping’ popularised in the famous Lyons Inquiry into Local Government (2006; 2007) in England and Wales. It is surprising that the Panel ignored this literature. Secondly, for the Panel’s claims on the disassociation between local identity and local government to have any credibility, they can readily be tested empirically by means of an appropriate opinion poll of a balanced sample of Perth residents in small councils.

**Finding 8:** The primary benefits to be achieved by the proposed reforms of Perth’s local government arrangements include: increased strategic capacity across the local government sector; a more equitable spread of resources across metropolitan Perth and more equitable delivery of services to all residents.; reduced duplication and better use of infrastructure; a streamlined regulatory environment with greater transparency, simplicity, consistency, and certainty with attendant cost savings for all sectors of the community; potential to achieve greater economies of scale; increased influence with State and Commonwealth governments reflected in improved funding for community projects; the achievement of metropolitan-wide social, economic and environmental goals.
Increased strategic capacity across the local government sector: The Panel (p.11) barely makes a case for this claim, arguing simply that ‘with greater scale, the quality of advice provided to councils could improve through the attraction and retention of the best in professional staff’. Moreover, no supporting evidence is presented.

If we do take into account available evidence, as we have seen in both sections 3 and 4 of this Report, the weight of conceptual and empirical opinion holds that, as a general rule, greater administrative and technical capacity are easier to achieve in larger local government entities. However, the force of this argument is diminished in metropolitan contexts by that fact that sophisticated strategic skills can readily be acquired through the market and from other councils.

A more equitable spread of resources across metropolitan Perth and more equitable delivery of services to all residents: The draft Robson Report adduces no evidence or scholarly literature in support of this claim. It simply asserts that ‘the creation of larger local governments would provide an opportunity for a more equitable spread of resources across metropolitan local governments and equitable services for all residents’, citing examples of demographic change in the form of an ageing population.

A wealth of literature exists on the assignment of functions between the different tiers of government in a federal system of government, which includes the theory of fiscal federalism (see, for example, Oates, 1972). A fundamental postulate of this literature is that equity considerations, such as minimising spatial differences in the capacities of local councils, should not be tackled at the local level using local rates, fees, charges or other local sources of revenue, for obvious reasons, such as the potential for migration between local government areas in search of redistributive transfers. Instead, higher tiers of government should use grants sent directly to local authorities to equalise the ability of local authorities to provide adequate local public good and services. This principle is a central element in Australian fiscal federalism, as exemplified by the Commonwealth Grants Commission and the various state government grant bodies.

It is not sufficient to argue - as the Panel (p.17) does – that the Financial Assistance Grants system provides inadequate financial support ‘to address the differences in capacity and special needs of metropolitan local governments’. The least-cost method of solving this problem is to
increase Financial Assistance Grants rather than spending hundreds of millions of dollars on a radical forced amalgamation program!

Against this background, the draft Robson Report will have to provide a much more convincing argument for equity-based structural change through amalgamation since it runs counter to standard economic theory, as in the theory of fiscal federalism. A more promising approach is to modify the existing grant regime so that it better assists urban local government.

**Reduced duplication and better use of infrastructure:** Argumentation in the draft Robson Report for this proposition is brief and devoid of any supporting empirical evidence or scholarly literature. The Panel (p. 11) simply asserts that ‘as well as the obvious savings from a reduction in the number of Chief Executive Officers (presently 30) and other senior and support staff, there could also be rationalisation of infrastructure and services’ and ‘ultimately the system could deliver less administration and more services to the community’ as a consequence.

In addition, it notes that ‘experience elsewhere in WA and Queensland has shown that the amalgamation of local governments has led to a reduction in the number of senior managers, but an increase in the number of local government employees dealing directly with the community in key areas such as community development, youth and indigenous affairs, and economic development’. No citations are presented by way of substantiation for this assertion.

Given the commitment of the Panel to adhere to ‘evidence-based’ policy formulation, the lack of supporting empirical evidence for these claims is troubling. In particular, claims regarding the post-amalgamation efficiency of the Queensland local government system is especially puzzling since no scholarly evaluation of the consequences of the forced merger program has yet been undertaken. Moreover, international evidence indicates that, far from reducing the costs of managerial overheads, the creation of larger local government entities through compulsory consolidation raises these costs since remuneration rates frequently rise to the level of the best paid constituent council (see, for example, Boyne, 1998). In addition, in Australian amalgamation programs, employment is typically guaranteed for council employees for a stipulated post-amalgamation period, usually three years!

*A streamlined regulatory environment with greater transparency, simplicity, consistency, and certainty with attendant costs savings for all sectors of the community:* The draft Robson
Report (2012, p.12) attempts to justify this empirical claim without adducing any evidence and without reference to any published material. No indication of the magnitude of any cost savings is provided nor is any supporting citation included!

It is striking that while the draft Robson Report (2012) seeks to innumerate the benefits of forced amalgamation, it is virtually silent on the costs of amalgamation. For instance, had the Panel examined what had actually occurred in post-amalgamation Queensland local government, it would have learned the costs of merging small local authorities into larger councils were prohibitive. For instance, as we saw in section 3, in its Review of Local Government Amalgamation Costs Funding Submissions: Final Summary Report, the Queensland Treasury Corporation (QTC) (2009) observed that affected local governments’ estimates of the costs of amalgamation had amounted to a net cost of amalgamation of $184.71 million! It is obvious that a radical merger of Perth councils will also be extremely expensive, a critical point that must be included in the final Robson Report.

**Potential to achieve greater economies of scale:** The draft Robson Report (2012, p.12/13) seeks to substantiate this empirical claim by citing only two studies, only one of which is properly cited (Deloitte Access Economics (2011) and Aulich et al (2011)). Furthermore, the draft Robson Report appears unaware of the vast empirical literature on this important question.

In addition, the draft Report (2012, p.12/13) carelessly quotes at length from Aulich et al (2011) on economies of scope despite trying to justify its claims on economies of scale! It need hardly be added that it is more than a little alarming that the draft Robson Report appears unable to differentiate between the conceptually completely separate categories of scale economies and scope economies.

Had the draft Report carefully considered Aulich et al (2011, p.10) Consolidation in Local Government: A Fresh Look, it would have found the actual findings of this report on scale economies flowing from amalgamation were as follows:

‘12. At the same time, there is little evidence that amalgamation will of itself yield economies of scale greater than those achievable through other forms of consolidation, or that such economies are available across many of local government’s functions by whatever means. We found few robust examples in the literature, in the case studies we examined or in the experience and
knowledge of the experts with whom we spoke. Yet many in central government – and some in
local government – still cling to the belief that substantial savings can and should be made.

13. Importantly, even where economies of scale can be demonstrated, in few cases have the full
costs of amalgamation been factored into the calculation of net savings. It is clear that
amalgamation (and some other forms of consolidation) imposes considerable costs in dislocation
and developing new arrangements and new cultures. Typically, these costs have been borne by
the councils themselves; ironic when amalgamation is proposed to address financial problems.
They can also be incurred by the community, such as in longer travelling times to get to service
centres or facilities’.

In section 3 of this Report, we provided a synoptic account of the empirical literature on scale
economies in local government. We pointed to the survey of empirical evidence undertaken by
Byrnes and Dollery (2002) which drew three main conclusions: (a) given the mixed results in the
literature, considerable uncertainty exists as to whether economies of scale do or do not exist; (b)
most existing Australian empirical work was misspecified; and (c) the lack of rigorous evidence
of significant economies of scale cast doubt on using it as the basis for amalgamations.

In section 4 of this Report, we outlined the findings of the various national and state inquiries,
which also demonstrated (a) uncertainty surrounding substantial scale economies and (b) shared
services and resource sharing could reap what scale economies may exist but at lower costs than
forced amalgamation. It is imperative that the Panel take evidence into account before making
policy recommendations, in line with its commitment to adhere to ‘evidence-based’
recommendations.

**Increased influence with State and Commonwealth governments reflected in improved
funding for community projects**: The Panel (p.13) argues that ‘it is widely understood that the
Commonwealth Government finds it difficult to work with multiple small local governments and
that it typically prefers to deal with larger local governments that cover larger populations’.
Moreover, ‘larger councils are more likely to be engaged as partners with State or Federal
agencies in regional planning or governance arrangements, and are more able to exert real
influence when dealing with other levels of government’, which ‘could extend to increased
funding’.
While it is hard to dispute this contention, with the necessary caveat that additional funding is most unlikely to result, the obvious question to raise is whether the loss of local democracy and the enormous pecuniary costs associated with radical amalgamation merit satisfying higher tiers of government’s desire to deal with large local government entities. Surely the structure of local government should focus primarily on what local government is required to do.

*The achievement of metropolitan-wide social, economic and environmental goals:* The Panel (p.13/14) contends that ‘the large number of small local government areas in metropolitan Perth restricts the ability to effectively deliver positive whole-city outcomes in a coordinated way’, especially given the inter-connected nature of the metropolis and the resultant myriad of spatial externalities. In particular, ‘Perth’s planning policies are overly complex and *ad-hoc*, and do not allow for a strategic, holistic approach to the big issues’. Citing the Southern Tasmania Council Authority (‘Munro Report’) (2011) *Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania* with approval, the Panel thus calls for a radical amalgamation of current Perth local councils.

At least two problems can be identified in this line of argument. In the first place, the Panel appears unaware that the Munro Report has been heavily criticised, particularly on grounds that it was devoid of any empirical evidence and it was also internally inconsistent (see, for instance, *Analysis of the STCA Independent Review of Structures for Local Governance & Service Delivery in Southern Tasmania*).

Secondly, radical compulsory amalgamation is by no means the only method of achieving ‘metropolitan-wide social, economic and environmental goals’ and less draconian alternatives exist in the form of metropolitan-wide authorities, such as the Greater London Authority. While no-one would dispute the argument that there is a need for a ‘city-wide’ planning authority to deal with broader advocacy, coordination and planning questions affecting the Greater Perth metropolitan region, a vast body of work deals with precisely this matter in the local public finance literature (see, for example, Oates, 1972).

It is universally agreed that positive and negative spatial externalities are a pervasive feature of the operation of local government, especially in large metropolitan areas. In real-world practice, it is very easy to find examples of where decisions made in one local council jurisdiction, or where activities carried out in a single local government area, can have decisive effects on other council jurisdictions.
in the region. For instance, the construction of large sports venues, industrial complexes and housing developments, which involve large numbers of people, typically impose significant congestion costs on surrounding jurisdictions. Moreover, the traditional theoretical solution to these problems, which uses charges and subsidies to ‘internalise’ these externalities, is not generally available to Australian local authorities since it falls outside of their powers.

Under these circumstances, the optimal approach resides in assigning decision-making authority to a regional body which is obliged to consider the metropolitan ramifications of policy decisions. Thus in the case of Greater Perth, a ‘city-wide’ governmental entity would govern functions which affected the whole metropolis. The case for a ‘city-wide’ authority for Greater Perth - analogous to the Greater London Authority – justified on grounds of externalities is not new. Furthermore, the creation of a ‘city-wide’ authority is by no means incompatible with the continued existence of numerous small local councils in the greater metropolitan area, as the Greater London Authority has demonstrated. Indeed, if local autonomy over local ‘place-shaping’ is to have any meaning, then the retention of existing small councils is essential. Using the example of Greater Los Angeles, Oakerson and Svorny (2005) have demonstrated that small municipal entities are perfectly compatible with sensible regional planning arrangements.

**Finding 11:** Consideration should be given to establishing a Local Government Commission, comprising an Independent chair and persons with significant State and local government experience, to manage the relationship between State and local government, and to oversee implementation of the reform process.

The Panel (p. 15/16) calls for the establishment of ‘a Local Government Commission, combining State and local government representatives reporting to the Premier [which] could provide a basis for managing the critical relationship between State and local government’. The reason for this proposal resides the fact that ‘while local government is essentially a “creature of the state” it would go some way towards equalising the power imbalance’ since the ‘the Local Government Commission could negotiate and oversee future changes in the role of local government’. The sting in the tail of the proposal is that the Commission could also ‘oversee the implementation of the Panel’s recommendations, including the boundary change process’.

Although well-intentioned efforts to buttress the independence of local government are welcome, it is undeniable that under current constitutional arrangements local government is beholden to
state government across all Australian local government jurisdictions. No amount of institutional
disguise can conceal this fundamental reality. Indeed, the suggested role of the proposed
Commission in implementing drastic amalgamation in Greater Perth serves to underline the
subservient role played by local government and how the Local Government Commission would
simply follow the wishes of the WA government.

Given the multifarious demands on the WA Treasury, not least the urgent need to upgrade local
government infrastructure, the opportunity cost of a Local Government Commission is thus far
too high to justify its establishment.

Finding 13: The most appropriate options for local government in metropolitan Perth are: 10
to 12 councils centred on strategic activity centres; five councils based on the central area and
sub-regions; one single metropolitan council.

The draft Robson Report (p.18) contends that the ‘most relevant options’ for the future structure
of local government in the Greater Perth metropolitan region are threefold: (a) 10 to 12 councils;
(b) five to six councils; and (c) one metropolitan council. Criteria used to evaluate these options
should include ‘the degree of duplication and fragmentation across the metropolitan area; the
potential for functional realignment; capacity for advocacy and lobbying; capacity to access
additional funding from State and Federal government, and the ability to demonstrate capability
to undertake significant projects; spread of rate base mix to ensure sustainability; equity and
access to services for all individuals across the metropolitan area; ability to generate strategies to
deal with metro-wide issues; consistency and uniformity for business, government and the not-
for-profit sectors; ability to generate efficiencies and attract quality staff; ability to facilitate an
improvement in governance via a significant change in the roles and expectations of elected
members; contribution to Perth’s role in the world economy and ability to promote a strong
international image; impact on future generations; and opportunity cost’. The Panel also
enigmatically added that ‘other advantages and disadvantages may well be identified’!

Despite the fact that its draft Report is entitled Towards More Effective Local Governance: Draft
Findings Report, the Panel (p.18) has still apparently not been able to decide which of these three
options best meets its criteria! This can be discerned from the following cryptic comments
(p.18), which seem to include a fourth option in the form of a metropolitan-wide governmental entity along the lines of a Greater London Authority:

‘The above three options for reforms defined above are central to the Panel’s *deliberations at present*, and must be considered in terms of population, capacity, rating mix, and community value. In conjunction with these options, a community council type advisory structure may be warranted. In this case, the areas of the former councils might be the basis of community boards. *Another possibility is for a metropolitan regional local government to operate as an overarching strategic body, maintaining local representation and coordinating existing councils. Models for this type of arrangement include London (with its Mayor, London Assembly and Greater London Authority) or Metro Vancouver (formerly known as the Greater Vancouver Regional District), both of which are based on retention of a number of individual local governments (of 33 and 22 respectively). The advantage of this type of arrangement is that the existing knowledge-capital of local governments is retained*’ (emphasis added).

The divergence in population size between options (a), (b) and (c) is enormous. Under (a) with ten councils, average council population would be about 170,000 people, under (b) with 5 councils, average population would be about 340,000, and under (c) with a single council around 1,700,000.

The draft Robson Report (p.18) provides no indication of why it has selected these options (with their massively different population sizes), apart from noting that ‘research by Conway Davy/Planning Context canvassed the advantages and disadvantages of a range of options, including options similar to those listed above’. It is thus impossible to assess the validity of reasoning employed by the Panel on this critical recommendation.

A further most unsatisfactory aspect of the draft Robson Report is that it has not done any modelling on the three options it has advanced. It is easy to demonstrate that this omission is most unfortunate. For example, Table 1 replicates the information provided in Metropolitan Local Government Review Briefing Paper *Key Data for Metropolitan Local Government Review* and calculates total operating expenses per capita for each Perth council. A glance at Table 1 in Appendix 1 confirms that per capita total operating expenses bear only a tenuous relationship to council population size.
However, as we saw in section 3 of this Report, correlation between population size and total council costs per capita does not properly measure economies of scale. Accordingly, in a preliminary econometric estimation, we included road and density data as exogenous control variables (see Appendix 2). What we find (holding density and road variables constant) is that there is no statistically significant relationship between population and total expenditure per capita (with $r^2$ at only 0.29). This inter alia refutes any suggestion of the presence of economies of scale, as claimed by the Panel.

**Finding 14:** *In any future model, the size of the City of Perth should be increased and its role enhanced.*

The Panel (p.20) observes that ‘the size of the City of Perth has emerged as a key consideration, especially since the spilt of the former City of Perth into four local governments in 1993’. Furthermore, it notes that ‘increasing the area of the City of Perth is not about reversing those changes, but about making more logical boundaries and building a connection between the City and the key infrastructure and facilities that serve the region’. The draft Robson Report then goes on to proclaim that ‘in any future model, the Panel sees the size of the City of Perth increased and its role enhanced’ since ‘the City must be of a sufficient size to be a serious national and international player, and to advocate for the whole of the metropolitan area, perhaps even the State’. Accordingly, ‘by increasing its size, the City will boost its capability and responsiveness, diversify its population, and enhance its international standing’.

No empirical evidence is presented in support of this policy position and no justification offered for why the City of Perth should advocate either on behalf the Perth metropolitan area or even for WA as a whole. Sceptics might point out that the WA government is better equipped to represent WA and that an enlarged City of Perth might have a sharp conflict of interest in simultaneously representing its own interests and those of the Greater Perth region! It might be added that if a metropolitan-wide Greater London Authority model was adopted, then it would not face this kind of conflict of interest.

**Finding 23:** *Amendments to governance arrangements for local government in metropolitan Perth should include the following: Introduction of compulsory voting at local government elections; Recognition of the leadership role of elected members; Election of Mayors by
community; Increased remuneration of elected members; Training for elected members; Clarification of the role of CEO and elected members.

Of the six examples of the kinds of change envisaged by the Panel in Finding 23, four are comparatively uncontroversial: ‘Introduction of compulsory voting at local government elections’; ‘recognition of the leadership role of elected members’; ‘training for elected members’; and ‘clarification of the role of CEO and elected members’. However, the questions of directly elected mayors and increased remuneration of elected members are controversial and warrant assessment.

**Election of Mayors by community:** The draft Robson Report (p.22) observes that ‘the election of the mayor by the community, the entire electorate, is also a preferred model for the future’, without providing any supportive evidence or relevant citations from the scholarly literature. This is regrettable since not only has the question been considered in the academic literature, but there are also cogent reasons for rejecting the directly elected Mayor model.

A useful method of approaching the problem has been outlined in Grant, Dollery and Gow (2011), who note that three separate mayoral models are available: Indirectly elected mayors elected by councillors; directly elected mayors; and directly elected mayors/chief executives. Each of these options has advantages and disadvantages, which should be carefully weighed. In particular, in the Australian political context, a Westminster-style polity reigns in the national and state spheres, with Prime Ministers/Premiers elected by the governing party representatives. In the local government sphere, the Westminster model takes the form of an indirectly elected mayor. Just as the replacement of an indirectly elected Prime Minister by a directly elected President would completely re-align the operation of federal politics, so too would the introduction of directly elected mayors in WA local government. The question thus requires further consideration and careful thought. Furthermore, it is not related to the question of structural reform in local government.

**Increased remuneration of elected members:** The Panel (p.22) argued that ‘the current remuneration of elected members in Western Australia is relatively low compared to other Australian jurisdictions’ and, as a consequence, ‘to go with the restructured local government arrangements for metropolitan Perth, it would be desirable to increase the levels of remuneration for elected members to more appropriately recognise their contribution’. The claim that WA remuneration is low by national accords with the evidence presented to the Panel in Information
A common theme running through Towards More Effective Local Governance: Draft Findings Report is the laudatory manner in which it perceives the 2007 Queensland amalgamation program and its results, despite the lack of any systematic evaluation of the program in the academic literature. If we assume that the Panel has in mind Queensland-style remuneration for elected councillors and Mayors, then we can explore its likely consequences for ratepayers in the Greater Perth region.

For Queensland local authorities’ remuneration for elected representatives, the reference rate of $137,149 per elected officer (determined by the Queensland Local Government Remuneration and Discipline Tribunal) is linked to the annual base salary payable to Members of the Queensland Legislative Assembly. Accordingly, if Greater Perth has ten separate councils following amalgamation – the cheapest option from the perspective of individual councillor remuneration – then each of these entities would be ranked as a Category 7 Council in Queensland with 12 elected councillors (each paid $102,862 plus $2,370 ‘amalgamation allowance’), a Deputy Mayor (paid $116,577 plus $2,650 ‘amalgamation allowance’), and a Mayor (paid $171,436 plus $3,800 ‘amalgamation allowance’). These calculations do not include other substantial direct costs, such as vehicles and administrative assistants for these representatives (Local Government Remuneration and Discipline Tribunal, 2011). If the Panel intends to recommend remuneration at commensurate levels, then it should explain how this should be ‘sold’ to Greater Perth ratepayers, who will foot the bill.

6. CONCLUSIONS
After painstaking consideration of Towards More Effective Local Governance: Draft Findings Report, the central thrust of this Report is that the Panel has largely ignored the voluminous Australian and international literature on forced amalgamation in local government, as well as the findings of the numerous federal and state public inquiries into local government on the efficacy of amalgamation as an instrument of reform. As a consequence, the Panel has drawn erroneous inferences from the outcomes of previous amalgamation episodes. Moreover, it has
neglected to consider the substantial costs of amalgamation and the inescapable question of who will bear these costs. It is thus in error in recommending three models of radical forced amalgamation and should instead have proposed a metropolitan-wide body, along the lines of the Greater London Authority, to deal with broader Greater Perth policy matters. A Perth-wide model of this kind can fruitfully co-exist with existing Perth local councils.

It is hard to gainsay the Panel (p.15/16) in its call for the reconsideration of ‘some areas of the current role of local government’. For example, the draft Robson Report cites the management of waste treatment and disposal as a ‘critical area’ in which there is a ‘strong case for this to be managed at a metropolitan scale’. It also noted that that ‘functions such as transport, bushfire management, natural resource management and urban and regional planning would be better suited to a metropolitan region or sub-regional approach’. There is obvious force to this argument since it not only accords fully with local public economics, but also fits with experience elsewhere.

However, it does not follow that a single metropolitan local government is either a necessary or sufficient condition for efficacious running of metropolitan-wide functions. This is obvious if one considers other metropolitan areas in other countries, such London and Vancouver, which the draft Robson Report itself refers to with approval.

It is thus argued that the optimal approach resides in assigning decision-making authority to a Greater Perth regional body charged with performing metropolitan-wide functions. In other words, the optimal approach for Greater Perth would be the establishment of a ‘city-wide’ governmental entity to govern functions which affect the whole of Greater Perth following the examples of cities like London and Vancouver. Blakely and Hu (2007) set out an analogous model for Greater Sydney.
## APPENDIX 1

### TABLE 1: Total Operating Expenditures Per Capita for Perth Councils

<table>
<thead>
<tr>
<th>Council</th>
<th>Total Operating Expenditure</th>
<th>Residential Pop</th>
<th>Area</th>
<th>Expense/capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armadale</td>
<td>55293492.00</td>
<td>60983.00</td>
<td>560.40</td>
<td>906.70</td>
</tr>
<tr>
<td>Bassendean</td>
<td>15325366.00</td>
<td>14790.00</td>
<td>11.00</td>
<td>1036.20</td>
</tr>
<tr>
<td>Bayswater</td>
<td>53654827.00</td>
<td>61865.00</td>
<td>32.70</td>
<td>867.29</td>
</tr>
<tr>
<td>Belmont</td>
<td>39145869.00</td>
<td>35082.00</td>
<td>40.00</td>
<td>1115.84</td>
</tr>
<tr>
<td>Cambridge</td>
<td>32691398.00</td>
<td>26959.00</td>
<td>22.00</td>
<td>1212.63</td>
</tr>
<tr>
<td>Canning</td>
<td>75884781.00</td>
<td>88433.00</td>
<td>65.40</td>
<td>858.10</td>
</tr>
<tr>
<td>Claremont</td>
<td>14000193.00</td>
<td>9891.00</td>
<td>4.90</td>
<td>1415.45</td>
</tr>
<tr>
<td>Cockburn</td>
<td>82665314.00</td>
<td>91313.00</td>
<td>148.00</td>
<td>905.30</td>
</tr>
<tr>
<td>Cottesloe</td>
<td>9189890.00</td>
<td>8222.00</td>
<td>4.00</td>
<td>1117.72</td>
</tr>
<tr>
<td>East Fremantle</td>
<td>6625553.00</td>
<td>7534.00</td>
<td>3.20</td>
<td>879.42</td>
</tr>
<tr>
<td>Fremantle</td>
<td>57561023.00</td>
<td>28626.00</td>
<td>18.90</td>
<td>2010.80</td>
</tr>
<tr>
<td>Gosnells</td>
<td>69919009.00</td>
<td>106724.00</td>
<td>127.00</td>
<td>655.14</td>
</tr>
<tr>
<td>Joondalup</td>
<td>107723161.00</td>
<td>164445.00</td>
<td>99.00</td>
<td>655.07</td>
</tr>
<tr>
<td>Kalamunda</td>
<td>40952034.00</td>
<td>55814.00</td>
<td>349.00</td>
<td>733.72</td>
</tr>
<tr>
<td>Kwinana</td>
<td>36079760.00</td>
<td>29029.00</td>
<td>118.00</td>
<td>1242.89</td>
</tr>
<tr>
<td>Melville</td>
<td>73322024.00</td>
<td>102434.00</td>
<td>52.70</td>
<td>715.80</td>
</tr>
<tr>
<td>Mosman Park</td>
<td>8581320.00</td>
<td>9440.00</td>
<td>4.30</td>
<td>909.04</td>
</tr>
<tr>
<td>Mundaring</td>
<td>33939407.00</td>
<td>38910.00</td>
<td>644.00</td>
<td>872.25</td>
</tr>
<tr>
<td>Nedlands</td>
<td>22673730.00</td>
<td>22508.00</td>
<td>21.00</td>
<td>1007.36</td>
</tr>
<tr>
<td>Peppermint Grove</td>
<td>3591047.00</td>
<td>1749.00</td>
<td>1.50</td>
<td>2053.20</td>
</tr>
<tr>
<td>Perth</td>
<td>119345532.00</td>
<td>17955.00</td>
<td>8.80</td>
<td>6646.91</td>
</tr>
<tr>
<td>Rockingham</td>
<td>103441073.00</td>
<td>104130.00</td>
<td>261.00</td>
<td>993.38</td>
</tr>
<tr>
<td>Serpentine-</td>
<td>17261840.00</td>
<td>17212.00</td>
<td>905.00</td>
<td>1002.90</td>
</tr>
<tr>
<td>Jarrahdale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Perth</td>
<td>40333657.00</td>
<td>43908.00</td>
<td>20.00</td>
<td>918.59</td>
</tr>
<tr>
<td>Stirling</td>
<td>159963129.00</td>
<td>202014.00</td>
<td>109.40</td>
<td>791.84</td>
</tr>
<tr>
<td>Subiaco</td>
<td>30761361.00</td>
<td>18862.00</td>
<td>7.10</td>
<td>1630.86</td>
</tr>
<tr>
<td>Swan</td>
<td>91300849.00</td>
<td>112960.00</td>
<td>1043.00</td>
<td>808.26</td>
</tr>
<tr>
<td>Victoria Park</td>
<td>30554681.00</td>
<td>32958.00</td>
<td>17.90</td>
<td>927.08</td>
</tr>
<tr>
<td>Vincent</td>
<td>38729623.00</td>
<td>31209.00</td>
<td>11.30</td>
<td>1240.98</td>
</tr>
<tr>
<td>Wanneroo</td>
<td>123268357.00</td>
<td>150106.00</td>
<td>685.80</td>
<td>821.21</td>
</tr>
</tbody>
</table>

APPENDIX 2

Although we cannot yet model the preferred option of the Panel since it has not advanced a preferred single option, we can nonetheless examine the statistical correlation between population size and total council costs per capita controlling for spatial size as recommended by Byrnes and Dollery (2002).

The full expression of our regression model is:

\[ E = \alpha + \beta_1 P + \beta_2 X + \mu \]  

(Equation 1)

Where \( E \) is the dependent variable, expense per capita. Vector \( P \) is the natural log of the residential population data. Vector \( X \) are exogenous controls; length of roads (in kms) and population density (population/square km). Finally, vector \( \mu \) is an independent identically distributed random error term.

Results for the stated regression are:

<table>
<thead>
<tr>
<th>Variable</th>
<th>ln (Expense per Capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ln) Popln.</td>
<td>-0.145 (0.131)</td>
</tr>
<tr>
<td>Density</td>
<td>-2.719 (8.733)</td>
</tr>
<tr>
<td>Roads</td>
<td>-0.000 (0.000)</td>
</tr>
<tr>
<td>_constant</td>
<td>8.602** (1.249)</td>
</tr>
<tr>
<td>( N )</td>
<td>30</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>0.291</td>
</tr>
</tbody>
</table>

Standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01

The natural log of the dependent variable and population has been taken in order to enhance the normality of the residuals. Road and density data have been included as exogenous control variables. The inclusion of these exogenous controls allows us to hold density and road variables constant, which is critical to draw conclusions regarding causality. What we find here is that (holding density and road variables constant), there is no statistically significant relationship between population and expense per capita. This evidence refutes any suggestion of the presence of economies of scale.
REFERENCES


