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Structural Change and Financial Sustainability in Australian Local Government

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1.Introduction

Since the early 1990s, structural reform of Australian local government, primarily the forced amalgamation of councils, has been the dominant mode of reform across state and territory jurisdictions. Amalgamations have frequently been imposed with little regard to impacts on communities or the newly created council entities. This paper considers amalgamations as a structural reform mechanism, common themes across jurisdictions, and the paramount local government matter of long term financial sustainability.

The paper is comprised of four parts. Section 2 provides a brief history to the recent evolution of amalgamation of local government entities across Australia. Section 3 shows differences and common themes in these amalgamations. Section 4 addresses financial sustainability as a critical matter facing the local government sector. Section 5 offers concluding remarks.

2. Historical Evolution of Local Government Amalgamation

The process of structural reform has included legislative enactments, partnership arrangements, resource sharing, strategic alliances and other

mechanisms, but has primarily consisted of imposed or voluntary amalgamation. Amalgamation has long been the preferred policy instrument of state governments (Marshall, 2008, p. 17). According to Vince (1997, p.151), amalgamation has been “a thread which runs through Australian local government history”. The number of federally registered authorities decreasing between 1910 and 1991 from 1067 to 826 (Jones, 1993, p.247), and in 2009 to 550 councils (Australian Local Government Association, 2009b).

As can be seen from these statistics, the pace of structural reform has substantially accelerated since the early 1990s, although reform has been uneven between jurisdictions and often uncoordinated. Substantial council amalgamation occurred in Victoria, Tasmania and South Australia between 1993 and 1998. A “second wave” commenced in 2004 in New South Wales, followed by the major 2008 Queensland and Northern Territory reductions in council numbers and the Western Australia consolidation program drive since 2009. Despite this re-organisational movement, the local government sector has been neglected by scholars and described as the ‘poor cousin’ of state and Commonwealth governments (Dollery, 2009, p.137).

2.1 First Wave – Victoria, Tasmania, South Australia

Amalgamations in Victoria commenced in 1993, were forced and caused a dramatic reduction in the number of local government entities being imposed on the citizens of that state. By contrast the local government reforms in Tasmania and South Australia during the same period followed a more consultative path. There was more engagement of local government and its constituents. However, in all three states, it was the state government which initiated and drove structural reform, including the council mergers. In each state there have been substantial reductions in the number of local government units. The largest reduction occurred in Victoria, where council numbers were dramatically

reduced by 56 per cent, while in Tasmania the reduction was 37 per cent and in South Australia 43 per cent.

Structural reform included updating the legislation pertaining to local government and providing modern, less prescriptive Local Government Acts. Victoria introduced Compulsory Competitive Tendering (CCT) primarily as a mechanism to make local government more efficient particularly in terms of service delivery to its constituents. CCT is now mandated in local government across Australia and more often than not has resulted in more efficient and effective service delivery to communities.

Tasmania and South Australia initiated State-Local Partnership arrangements which have generally been successful. More recently these arrangements have been applied in other States. The key issue of financial sustainability of local government was first addressed in South Australia through the Financial Sustainability Review Board and, more recently, Access Economics in Tasmania examined that issue in Tasmanian councils. Long-term financial sustainability of local government is now at the centre of debate in local government across all states. The ongoing financial hardship in these three states seems to indicate that measures apart from structural reform are required.

2.2 Second Wave – New South Wales

Successive NSW state governments had maintained a policy of ‘no forced amalgamations’ of local government entities. However, as with some other jurisdictions, when the government chose to address structural reform in the local government sector, it nevertheless used the blunt and direct instrument of forced amalgamation.

Immediately after the March 2003 state election, with a four year electoral term buffer and a comfortable majority in Parliament, the Carr government moved to bring about a reduction in the number of local government entities from 177 to

152. The speed with which the NSW amalgamations occurred rivalled that in the other states and the later mergers in Queensland and the Northern Territory. Indications of the determination of the NSW government to secure amalgamations as quickly as possible were provided by the hastily convened and tight time-framed Regional Reviews with government appointed “Independent Facilitators”, the Minister’s insistence of speedy receipt of facilitators’ reports, and of the Local Government Boundaries Commission recommendations when reports were referred to that entity. During the process there was scant regard for community or local government views and aspirations.

It has been argued that NSW paid less regard and attention to effective community consultation than other jurisdictions. Debate continues in NSW about the prospect of further council reductions especially in Sydney where there are 42 councils compared, for example, to one council for Brisbane city.

2.3 Third Wave – Queensland, Northern Territory, Western Australia

Structural reform and council amalgamations largely bypassed Queensland, the Northern Territory and Western Australia during the 1990s. Commentary at government level in these jurisdictions was usually limited to assurances that there would be no forced amalgamations.

Dramatic change occurred in 2007 and 2008 when controversial large-scale, government-introduced, forced amalgamations occurred in Queensland, which reduced the number of local councils from 157 to 73 (Local Government Reform Commission Qld, 2007, p.13). The outcome was that since formation of the newly amalgamated Queensland councils in March 2008, some councils became very large spatial areas with substantially increased populations, whilst other rural and remote entities had very large areas with small populations. The new Sunshine Coast Regional Council, for example, with 323,423 residents in 2009 (Sunshine Coast Regional Council, 2010, p.1) incorporated the population

of almost five State electorates, whereas Waggamba Shire, based in Goondiwindi, covered an area of over 18,000 square km, with a population of less than 5,000 persons (Local Government Reform Commission Qld, 2007, p.22, 26).

Successive Northern Territory administrations had occasionally suggested the need for local government reform, but had not initiated change. In 2008, the Northern Territory government greatly reduced the number of councils, community government councils and community associations from 61 to 16 units (Local Government Association of the Northern Territory, 2008, p.2). This was subsequently increased to 17 with formation of the Tiwi Islands Shire (Department of Housing Local Government and Regional Services Northern Territory Government, 2009, p.1). In terms of reduction in council numbers, this was easily the largest scale, forced local government amalgamation in Australia.

Until late 2008, successive Western Australian Governments had resisted the option of council amalgamations, preferring a State-local partnership approach. However, currently in that state, actions encouraging structural reform and specifically amalgamations of the 135 councils are being promoted and encouraged by the Government (Australian Local Government Association, 2009a, p.2-3). Local Government Minister Castrilli has overridden the Western Australian Local Government Association (WALGA) - sponsored Systemic Sustainability Study (SSS), a few councils have agreed to voluntarily amalgamate (Government News, 2009, p.1) and further amalgamations, either imposed or voluntary may take place within the government timeframe of 2013.

1. 3. Differences and Common Themes

The forced amalgamations in Victoria, and later in Queensland and the Northern Territory were driven by the State and Territory Governments, and resulted in significant and arbitrary reduction in numbers of local government entities. In

each of these jurisdictions there was minimal genuine consultation or consideration for local government and its communities. At least there was some degree of cooperation and consultation during the Tasmanian and South Australian structural reform processes.

A key difference between the 1990s amalgamations in Victoria, Tasmania and South Australia, compared to those in each of the jurisdictions of Queensland, Northern Territory and Western Australia was that the latter much larger states (and Territory) had substantial sparsely populated areas. The treatment of their remote populations was quite different to that adopted in Victoria, Tasmania and South Australia. In Queensland, the boundaries of the large remote local government areas, including indigenous community local government entities, were essentially left unchanged.

However, in the Northern Territory there was a gradual approach to structural reform that occurred over almost a decade. Many remote community government councils were wiped out and placed in much larger areas in what was the most extensive amalgamation process to have occurred in any Australian jurisdiction. In common with Victoria, Tasmania and South Australia, the number of local government units was very substantially reduced in both Queensland and Northern Territory after the forced mergers and with resultant much larger councils.

In respect of Western Australia, where the structural reform process has been slower and more incremental over the years, and where successive governments had opposed forced amalgamations, it is now possible that amalgamation of councils will soon occur, although perhaps not to the extent in Victoria, Queensland and the Northern Territory. A more conciliatory and consultative approach in Western Australia, at least until early 2009, suggested commonalities between the more consultative and local government driven

processes than occurred in Tasmania and South Australia in the previous decade.

Local government legislative reform has been a common feature in each jurisdiction, especially through provision of new Local Government Acts, which facilitated the structural reform process, provided less prescriptive legislative provisions, and conferred general competence powers upon the local government sector, to enable continuing improvements and efficiencies for the local sphere of Australian government.

Implementation of Compulsory Competitive Tendering (CCT) occurred across all local government councils after being first introduced in Victoria in the mid-1990s. In 1997, the Council of Australian Governments (COAG) mandated CCT across the Australian local government sector. This common implementation has resulted in greater competition in service delivery to local communities across Australia. However, whether CCT has resulted in more efficient service delivery remains contested.

In each State and the Northern Territory, the primary drivers of structural reform over the past two decades were State and Territory Governments. Without the ‘top down’ compulsion to change, it is likely that local government boundaries would have predominantly remained unchanged, given that local government has usually resisted boundary changes and mergers, and has often engaged in the reform process only because of the insistence of ‘political masters’.

In common with Tasmania and South Australia, the Western Australian Government for several years promoted partnerships with local government as an alternative to forced amalgamations. Partnerships between States and local government have usually produced closer linkages and cooperation between the

two spheres of government and also, in some respects, enhanced community well-being and service delivery.

4. Financial Sustainability

A common argument used by State and Territory governments in respect of the need for local government structural reform, has been the key matter of securing the long term financial sustainability of the sector. Whether council mergers are integral to this vital goal and whether imposed amalgamations produce genuine economies for local government and its communities is highly contested.

The expansion of the roles and responsibilities of local government is ongoing and adds further layers to the diverse responsibilities of local authorities. This situation is expected to continue in response to increasing community expectations and demands and to meet the policy agendas of the other spheres of government.

Various inquiries in recent years have emphasised the continuing financial plight of local government. I argue that long term financial sustainability of the sector is the most pressing matter to address. Serious questions surround the ongoing viability of many councils in terms of financial sustainability and operational efficiency.

In New South Wales since 1977, there has existed a system of rate-pegging (Local Government and Shires Association of NSW, 1996, p. 1) (Local Government Managers Australia NSW Division, 2003, p. 13). Rate revenue growth has consequently fallen well behind other Australian local governments.

Since introduction in 1976, Federal Financial Assistance Grants have substantially declined in real terms (Local Government Managers Australia NSW Division, 2003, p. 14). Cost shifting and unfunded mandates imposed by succeeding State and Federal governments of both political persuasions has

significantly impacted on local government's financial position. This is because there has not been provision of adequate commensurate resources to discharge devolved responsibilities. Local government's ability to adequately maintain existing assets or provide the essential infrastructure urgently required and rightly demanded by communities has thus been severely eroded in many instances (Tiley I, 2003) (House of Representatives Standing Committee on Economics Finance and Public Administration, 2003, pp. 12-13).

Service expectations of communities have substantially increased as people have taken greater interest in the level of government which most closely impacts on their daily lives. The 'sea change/tree change phenomenon' and relocation of relatively affluent people to rural and regional coastal localities has resulted in greater need and urgency for water, sewerage, roads and social infrastructure. Additionally, less financial support in real terms from other spheres of government, outmoded or non-existent local government Section 94 developer contribution plans, and recently (in NSW) a government ceiling on developer contributions has exacerbated financial concerns (NSW Government Department of Planning, 2008)

The most satisfactory financial outcome for local government would be secure access to a federal government growth tax and preferably a fixed share of federal income tax collections. Successive Australian governments have resisted calls for hypothecation of tax receipts for specific purposes. However, local government should continue to lobby for a growth tax so that taxation collected from communities could be returned for locally determined priorities. Without access to a progressive tax base local government will always struggle to meet community expectations for services. Furthermore, essential asset maintenance and provision of new or refurbished infrastructure will be placed at risk.

Better definition of local government's role and establishment of a policy mechanism to allocate functions and concomitant revenue raising powers will be critical to securing long-term financial sustainability. A consistent framework of financial and efficiency indicators are needed to measure the financial position, performance and sustainability of local government entities. Recently mandated asset management plans in some jurisdictions will need to ensure that council assets are renewed at least equal to the rate at which they are used or depreciated. In the interest of intergenerational equity, capital expenditure on asset enhancements and infrastructure renewals should be fairly apportioned between present and future generations.

2. 5. Conclusion

There is a lack of empirical evidence, to either support or refute the proposition that amalgamation of councils provides greater economic benefit to communities. More research is required. One purpose of my doctoral research is to consider the NSW Clarence Valley Council as a case study and test whether economic benefits have ensued as a consequence of the 2004 Clarence Valley council amalgamations

My challenge is also to determine whether there are demonstrated and useful economic and local democratic gains for communities and whether, if gains are proven, they have been worth the local community upheaval and conflict that has occurred.

Table - Differences and Common Themes – Australian Local Government Amalgamations

State/Territory	Time Frame	Method	Driven by	Consultation
Victoria	1993-97	Forced	State government	Minimal. Government moved swiftly after 1993 state election.
Tasmania	1993	Forced	State government	Moderate levels but government was determined to reduce number of councils.
South Australia	1996-8	Forced	State government	Probably the most consultative state. Allowed significant input from councils and their communities.
New South Wales	1999-2000 2003-04	Voluntary Forced	State government	2003-04 process was hastily arranged “Regional Reviews” and minimal time for genuine input
Queensland	2007-08	Forced	State government	Minimal.
Northern Territory	2008	Forced	State government	Discussed over several years but eventually only perfunctory consultation over intended new local government boundaries.
Western Australia	2008 - 2010	Voluntary to date but likely to be imposed by 2013	State government working with Local Government	Conciliatory and consultative to date.

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