

Do mergers make for better councils?

THE CONVERSATION 31 March, 2016

Brian Dollery

Professor of Economics and Director of the Centre for Local Government, University of New England



Those opposed to forced municipal mergers have reason to be sceptical of NSW Premier Mike Baird's promises that it will improve councils' performance. AAP/Paul Miller

Hard-pressed ratepayers in New South Wales and Queensland need no reminding of the perils of municipal amalgamation. NSW experienced a sharp dose of forced mergers in 2004. Queenslanders underwent draconian council consolidation under the Beattie government in 2008.

NSW is now on the cusp of a further round of mergers being inflicted on unwilling councils.

In all three cases, the architects of compulsory amalgamation have been under the sway of the dogma that "bigger is better" in local government. Ratepayers are told amalgamation will herald a new dawn of lower rates, cheaper services, improved service quality, enhanced financial viability and superior administration and planning.

In NSW, the Baird government has especially emphasised the financial advantages of municipal amalgamation. These claims are typically presented as the outcome of careful research and deliberation.

Mergers tested in a real-world experiment

Are these claims consistent with the empirical evidence? My colleagues Brian Bell and Joseph Drew and I investigated this question for NSW's 2004 forced amalgamations.

We took advantage of being able to use 2014 data to compare the performance of merged councils with their unmerged counterparts over ten years.



The Carr government's 2004 council mergers provide a basis for comparing the impacts over the following decade. AAP/Mick Tsikas

We compared amalgamated “general purpose” councils with their un-amalgamated peer councils in the same local government classification. We thus had the benefit of a “natural experiment”, being able to compare the two groups of “like” councils against a common set of performance indicators.

Our peer-reviewed research paper will be published shortly.

The criteria we used for this comparison included four the Baird government is using under its “Fit for the Future” program – operating performance, own-source revenue, building and infrastructure renewal, and asset maintenance ratios – as well as council employees per capita.

We found no statistically significant differences in the performance of the two groups of councils against these criteria. This falsifies past claims by the Carr Labor government that its forced amalgamations would substantially improve NSW local government financial

performance. It also undermines the Baird Coalition government's claims for its proposed mergers.

Evidence mounts against 'bigger is better'

Other research provides additional damning evidence. For example, Joseph Drew, Mike Kortt and I examined the outcomes of forced amalgamations in Queensland in 2008. These reduced the number of councils from 157 to just 73.



Some of the council mergers pushed through in Queensland in 2008 under the Beattie government have since been reversed. AAP/Dave Hunt

Our research demonstrated that this resulted in a greater proportion of councils exhibiting diseconomies of scale. That is, mergers created entities that were simply too large to be run efficiently.

Furthermore, of the 31 new councils the mergers created, 58% exhibit decreasing returns to scale. Comparing their efficiency through time, we found merged councils performed worse than unmerged councils.

Finally, Elizabeth Sinnewe, Mike Kortt and I recently tested the claim that "bigger is better" by examining the financial performance of Australia's largest council by population, Brisbane City. In our recently published analysis, we compared Brisbane City Council to Sydney City Council, the average of six southeast Queensland councils and the average of ten metropolitan NSW councils.

We did so using four measures of financial performance – financial flexibility, liquidity, debt service capacity and asset management. Between 2008 and 2011, the three comparator groups outperformed Brisbane Council in financial flexibility, liquidity and debt-servicing ability.

Taken together, these three papers cast doubt over the continuing dogma that “bigger is better”. They also add to the empirical literature on municipal mergers by demonstrating that “biggest is not best” either.

In particular, the financial performance of local authorities does not improve as advocates of amalgamation contend. On the contrary, amalgamated municipalities often perform worse than their unmerged counterparts.

Amid the controversy over the Baird government’s compulsory council consolidation program, our findings underline the foolishness of making public policy in an “evidence-free” manner.

If forced amalgamations proceed, we may well see hundreds of millions of dollars in taxpayer and ratepayer funds squandered simply because policymakers preferred dogma to empirical evidence.

<https://theconversation.com/do-mergers-make-for-better-councils-the-evidence-is-against-bigger-is-better-for-local-government-56813>