



Centre for Local Government
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COUNCIL SIZE AND COUNCIL PERFORMANCE: EVIDENCE FROM SYDNEY

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Greater Sydney Amalgamation

- All Australian local government systems have undergone forced amalgamation, except WA.
- WA: mergers underway in Greater Perth.
- NSW: Greater Sydney mergers proposed.
- QLD: several de-amalgamations under way.
- NT: 'de-centralisation' proposed.



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Table 1: Number of local councils in Australia, 1910-2012

	1910	1967	1982	1990	1995	2008	2012
NSW	324	224	175	176	177	152	152
VIC	206	210	211	210	184	79	79
QLD	164	131	134	134	125	73	73
SA	175	142	127	n/a	119	68	68
WA	147	144	138	138	144	142	139
TAS	51	49	49	46	29	29	29
NT	0	1	6	22	63	16	16
TOTAL	1,067	901	840	726	841	559	556



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- Among OECD countries, Australia has the fourth largest local authorities (40,118 residents per council).
- UK has largest councils (143,000), followed by Denmark (55,500) and New Zealand (49,000).
- France has smallest councils (1,500 persons) with Switzerland (2,500) slightly larger.



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Australian mergers follow typical pattern:

- State government complains of council inefficiency/fiscal viability and launches 'independent' inquiry.
- Inquiry publishes discussion paper(s), interim report and final report which always recommends forced mergers.
- After 'public consultation' mergers proceed.



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After forced mergers, we see common pattern:

- Ongoing public discontent, often for years.
- No public reporting of costs of mergers.
- No public assessment of merger outcomes.
- No improvement in efficiency/financial viability.
- After period of years, process begins again.



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NSW is following typical pattern:

- **2012:** NSW establishes Independent Review.
- Panel releases *Better, Stronger Local Government* arguing for mergers across Greater Sydney.
- **April 2013:** *Future Directions for NSW Local Government* proposes forced amalgamation.
- **April/September 2013:** 'public consultation'.
- **October 2013:** Panel releases final report – probably replicating *Future Directions*.



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- Amalgamation advocates contend 'bigger is better', 'bigger is cheaper', and 'bigger means better services'.
- Typically claims not met, especially on cost savings
- Thus recent shift away from 'cost saving' and 'scale economies' claims to 'enhanced capacity' claims.
- But what of the empirical evidence?



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Official Inquiries

- Numerous Australian state and national inquiries.
- All find amalgamation has not met expectations + costs of amalgamation badly under-estimated.
- PWC (2006) found (then) amalgamated SA, TAS, VIC & NSW and non-merged QLD & WA had no differences in financial viability.



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Academic Literature

- Big literature, especially in US, but also Australia, mostly case studies.
- Almost unanimous mergers don't meet claims.
- *Councils in Cooperation* (2012) summarises the evidence in detail.
- PFM (2013) *Special Edition* focused on mergers.



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New Academic Work

- Andrews and Boyne (2012) pioneered new approach comparing merged with non-merged councils.
- Questions remain over whether population size or density dominate council costs.



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- Present paper with colleagues Mike Kortt, Simone De Souza and Rhys Andrews investigates whether scale economies in local government reflect effects of density as much as size.
- To examine these claims, we estimated relationships between size and density and metropolitan council expenditure using a six-year panel of 38 NSW metropolitan municipalities for 2005/2010.
- We find limited empirical evidence of scale economies attributable to either the effects of size or density.



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To estimate the relationship between metropolitan local government expenditure and pop size, we employed municipal and time fixed effects regression model in a panel context:

$$Y_{it} = \beta_1 \mathbf{P}_{it} + \beta_2 \mathbf{X}_{it} + \alpha_{it} + \lambda_{it} + \mu_{it}$$

Empirical approach had three parts:

- Effects of pop size on log of total per capita costs.
- Effects of pop size on specific expenditure types.
- Estimate relationship between expenditure and pop size stratified by pop density.



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- Our results are broadly consistent with previous studies (e.g. Ladd, 1992; Holcombe and Williams, 2009; Drew, Kortt and Dollery, 2012).
- Indicates that if population size and municipal expenditure is stratified by population density, evidence for scale economies evaporates.
- Suggests that the merging metropolitan NSW councils are not likely to reap scale economies (i.e. no substantial cost-savings).