



Woollahra Municipal Council

*Fit for the Future
Research Report
March 2015*

Percy Allan & Associates Pty Ltd

Annexure 2

Woollahra Municipal Council:

- Is its present scale fit for the future?
- Would merging make it fatter or fitter?



A research report by Percy Allan & Associates Pty Ltd

March 2015

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This Report's Focus

The Independent Local Government Review Panel made the following recommendation regarding Woollahra Municipal Council (WMC) and its neighbouring municipalities.

Fit for the Future

ILGRP's Recommendation:

Botany Bay, Randwick, Sydney, Waverley, Woollahra	<ul style="list-style-type: none">• Amalgamate or• Combine as strong Joint Organisation	<ul style="list-style-type: none">• Projected 2031 population 669,400• Close functional interaction and economic/social links between these councils• Need for high-level strategic capacity to promote and support Sydney's ongoing development as Australia's premier global city• Scope to bring together Sydney's international icons and key infrastructure under a single council, and to make better use of the strong rating base of these councils
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The State Government's Fit for the Future policy for local government in New South Wales asked each council involved to examine whether it would benefit from a merger in terms of becoming Fit for the Future.

Percy Allan and Associates Pty Ltd were requested by Woollahra Council to answer two questions to assist Council in making that assessment:

Question 1: *What is the optimal population size of a Sydney metropolitan council in terms of its operating expenditure per resident and financial sustainability? Does Woollahra meet that scale test?*

Question 2: *Are there any strategic capacity gains for Woollahra Council merging with its three neighbouring Councils (Sydney, Randwick, Waverley) and Botany bay Council as proposed by the ILGRP?*

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Preface – A Short History of Local Government Mergersⁱ

Since the 1990's large scale local government mergers have occurred in Victoria, South Australia, the Northern Territory and Queensland. In recent years local government reviews were completed in Tasmania, Western Australia and New South Wales, but did not result in forcible mergers though the NSW Government has so far not ruled out mandatory mergers, post state elections in March 2015.

In 1994, the Victorian Government restructured local government in Victoria. Premier Kennett dissolved 210 councils and sacked 1600 elected councillors, and created 78 new councils through amalgamations. In suburban Melbourne 53 municipalities were reduced to 26. The new local government areas (LGAs) were headed by commissioners appointed by the State Government and democratically elected councils did not return until 1996.

In 1997 local government in South Australia underwent its biggest transformation in decades. From a total of 119 councils across the state, the South Australian government engineered the amalgamation of urban and regional councils to result in just 68, including 19 councils in metropolitan Adelaide.

Following a state election in March 2003, the Carr Government in New South Wales used its majority in both houses to legislate a reduction in the total number of councils from 177 to 152, with 22 new entities created. Super Councils were introduced in Sydney and around Canberra, Goulburn and Tamworth. Four general purpose and two county councils were merged in Clarence Valley and a number smaller scale rural council amalgamations occurred elsewhere.

In 2008, the Northern Territory government cut the number of local government entities and community associations from 61 to 16 but subsequently increased it to 17 with the formation of the Tiwi Islands Shire. In terms of the proportion of local councils merged this was the most drastic local government consolidation undertaken anywhere in Australia.

In 2007 and 2008 controversial large scale amalgamations were forced through in Queensland reducing the number of councils from 157 to 73. Following a change of government in 2012, 19 communities applied to de-amalgamate, but only 4 (Douglas, Livingstone, Mareeba and Noosa) were permitted to conduct referendums which resulted in their former Councils being restored in 2013.

In 2011, a government appointed inquiry (The Munro Report) recommended formation of a Greater Hobart Council comprised of the Brighton, Clarence, Glenorchy, Hobart and Kingborough councils, but the government did not proceed with implementing the report. In late 2014, mayors from 29 councils were invited by

the Tasmanian Government to a series of meetings focused on voluntary amalgamations.

In Western Australia a plan to slash the number of metropolitan local governments from 30 to 16 were abandoned by the Premier in February 2015 following a vote by ratepayers in five Perth councils rejecting proposed amalgamations in a special poll. The Premier said the people had spoken and he had "run up the white flag" on the issue.ⁱⁱ

The following table summarises the history of local government consolidation in each state and territory (other than the ACT) since 1910.ⁱⁱⁱ

Total Number of Local Councils in each State and Territory (other than ACT) between 1910 and 2013

Region	1910	1991	2007	2008	2013
NSW	324	176	152	152	152
Vic	206	210	79	79	79
Qld	164	166	157	73	77
WA	147	138	142	139	138
SA	175	122	68	68	68
Tas	51	46	29	29	29
NT	1	25	64	17	17

The next table shows the average recurrent expenditure per resident and the average population size of local councils in each of the above jurisdictions in 2012/13.^{iv}

Note that there is no clear pattern between the average population size of a council and its average recurrent spending per resident across different jurisdictions.

Indeed the region with the highest council expenditure per resident (Qld) has the second largest councils by average population size. And the region with the lowest spending per resident (SA) has councils whose average population is half that of NSW and a third that of Victoria.

Average Council Recurrent Expenditure and Average Council Population Size by State and Territory, 2012/13

Region	Local Govt. Recurrent Expenditure*	Total Population	L.G. Rec. Exp. Per Resident	Number of Councils	Average Population per Council
NSW	\$9,752m	7.4077m	\$1,316	152	48,734
Vic	\$7,148m	5.7376m	\$1,246	79	72,628
Qld	\$9,002m	4.6586m	\$1,932	77	60,501
WA	\$3,338m	2.5172m	\$1,326	138	18,241
SA	\$1,904m	1.6708m	\$1,140	68	24,571
Tas	\$648m	0.5130m	\$1,263	29	17,690
NT	\$434m	0.2395m	\$1,812	17	14,088

*Equal to GFS expenditure which includes gross operating expenditure, superannuation, interest, and property expenses and current and capital transfers as defined by the Australian Bureau of Statistics.

PART A: Council Scale

Question: *What is the optimal population size of a Sydney metropolitan council in terms of its operating expenditure per resident and financial sustainability? Does Woollahra meet that scale test?*

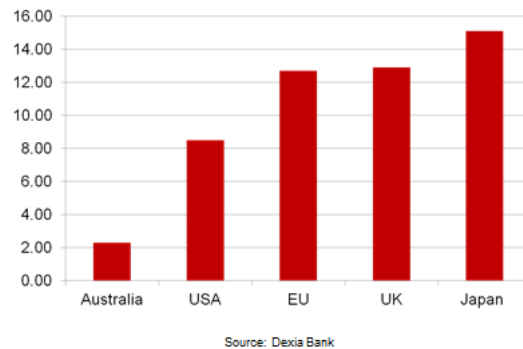
Answer:

- **Research shows WMC's population size is adequate for optimising efficiency**
 - **Sydney metropolitan councils show no significant efficiency gains from scale**
 - **Small to medium sized councils exhibit stronger finances than larger ones**
 - **Merging common services across state entities has not been successful**
 - **Academic studies provide no compelling evidence that mergers cut costs**
 - **The ILGRP did not propose council mergers on 'financial viability' grounds**
 - **T Corp found WMC was financially sustainable now and in the near future**
 - **WMC passes 5 of 7 FFTF financial checks and should meet all by 2017/18**
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1. Optimal Size

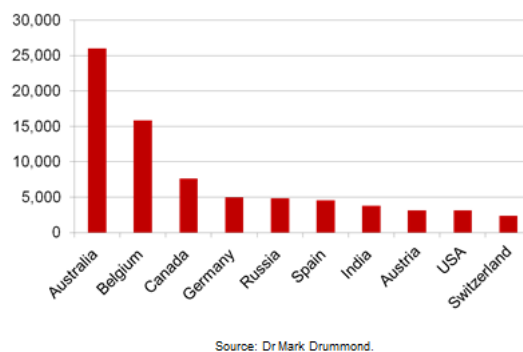
Our local government sector is small by world standards, accounting for only around 6% of general government outlays and 3-4% of total taxes collected in Australia. Local government expenditure as a proportion of GDP is only 2.3% in Australia compared with 8% to 15% in other developed countries¹.

Local Government Expenditure as a Percentage Share of GDP, 2006



Yet paradoxically, Australia's local councils are big by world standards. In 2000 the average residency size of local government units in other countries was generally much smaller than in Australia².

Average Size of Local Government Bodies by Population in Federal Systems, 2000



Since 2000 the average population served by an Australian local council has increased from 26,000 to over 40,000. This is because the total number of councils has shrunk from 730 to 564 and the population has risen from 19 million to almost 23 million.

Some favour local government amalgamation because they think the average Australian local council is too small by world standards. Yet the 27

¹ Private correspondence by P. Allan with Dexia Bank, July 2008. Dexia specialises in local government finance.

² Mark Lea Drummond, *Costing Constitutional Change: Estimates of the Financial Benefits of New States, Regional Governments, Unification and Related Reforms*, School of Business and Government, PhD Thesis, University of Canberra, Nov 2007.

member states of the European Union have 88,000 local municipal authorities³ compared with just 564 in Australia even though our land mass is almost twice the size of the European Union.⁴

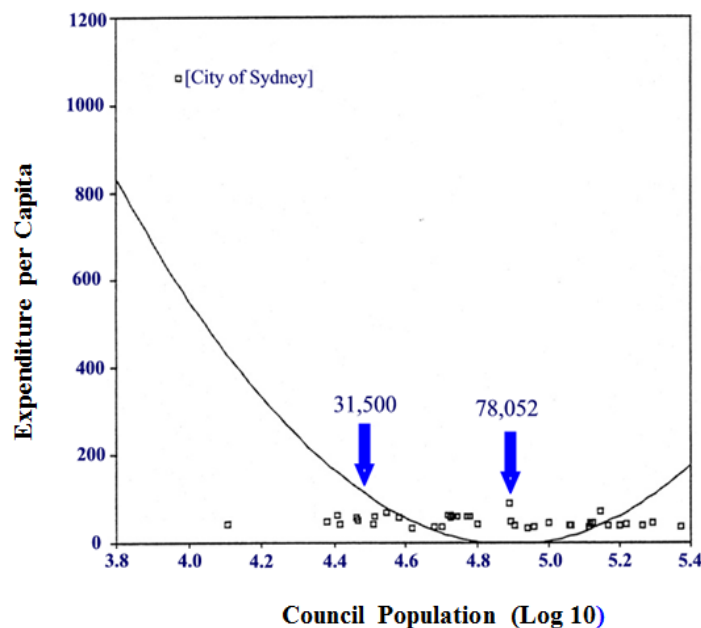
While Australia's population of 23 million is overshadowed by the European Union's 501 million people, the average number of residents covered by a European local authority is 5,693, while the average population served by an Australian local council is 40,248.

In the USA the average size of a local government unit (county, municipality and township) is 7,981.⁵

Woollahra Council with around 58,000 residents is almost 50% larger than the average Australian local council and around eight times larger than the average sized local government body in Europe and the United States of America.

Research by Dr Stephen Saul on the optimal size of a Sydney metropolitan council would suggest that Woollahra's projected population of 67,800 by 2031 is adequate for this purpose.^v See his results shown in the chart below.

Average Costs versus Council Size



According to Dr Soul:

³ Dexia, *Sub-National Governments in the European Union – Organisation, responsibilities and finance*, Paris, July 2008, page 31

⁴ Wikipedia, *Local Government in Australia*, http://en.wikipedia.org/wiki/Local_government_in_Australia

⁵ Wikipedia, *Local Government in the United States*, http://en.wikipedia.org/wiki/Local_government_in_the_United_States

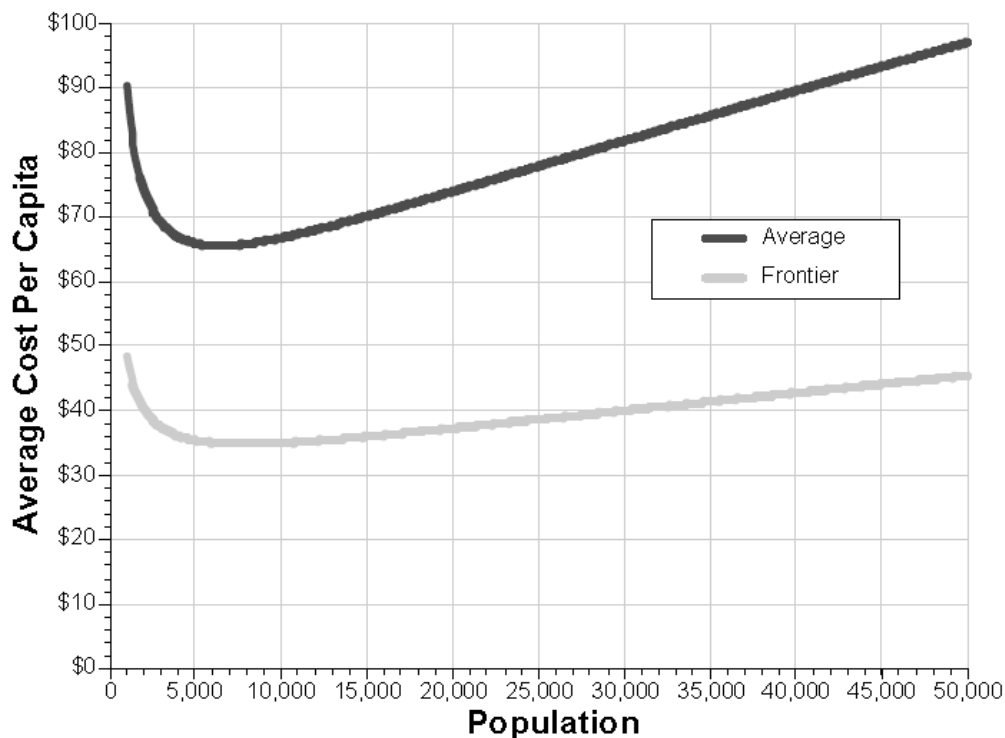
“Increasing population yields a lower level of gross expenditure per capita, however, once this reaches a point between 31,500 and 100,000, increasing population size results in higher levels of gross expenditure per capita.”^{vi}

A recent study of the average cost per capita of local governments in towns and cities of New York State over a 28 year time frame found...

“...that optimal population is estimated to be somewhere between 4,600 and 25,200 people. Mergers that result in a population of over 25,200 people will generally lead to increases in cost.”

“Therefore, it can be confidently determined that it follows that mergers of municipalities of over 25,000 population should be discouraged.”^{vii}

The graph below from this study^{viii} shows that the most cost efficient size for the average municipality in NY State was 5,000 to 8,000 residents.



If local councils in NY State (which provide a wider range of human and property services than councils in NSW), can optimise their cost efficiency with a small population, then it is questionable whether WMC (with a population of 58,000 residents which is projected to reach 68,000 by 2031) needs to amalgamate with four other councils (whose combined population size would be 525,400 by 2016 and 669,400 by 2031^{ix}) in order to achieve optimal cost efficiency.

Indeed according to the author of the New York State study the reason for larger councils having unit costs than smaller ones are:

“...people vote with their feet. To the extent they are able, they choose municipalities that best fit their choice of services and taxes.

“Some people prefer higher levels of government services and accept the needed increases in taxes that are likely to go along with the higher services...

“Consequently, having more municipalities available in a geographic area may well result in lower political effort as people are sorted into communities according to their preferences. If this sorting is more difficult or expensive, it will be necessary to achieve one's desired levels of spending and taxes by political means rather than by moving to a more congenial community...

“Leviathan is a theory that government acts to maximise its spending. It is argued that the managers in a government benefit by having more spending. This can be promoted by having greater market power. Presumably, the government personnel are able to obtain greater salaries if their budgets are larger.

“Typically, the argument for higher salaries goes through the following process: 1) salaries should reflect responsibility; 2) larger departments in either numbers of personnel or in budgets have greater responsibility; 3) therefore, the managers in these larger departments deserve greater remuneration; 4) due to the resulting incentive salaries and number of personnel are both pushed upward.

“This is in contrast to private firms where managers are more likely to be compensated in accord with the profitability they generate. Thus private sector managers have less incentive to hire beyond the optimum number of workers.”

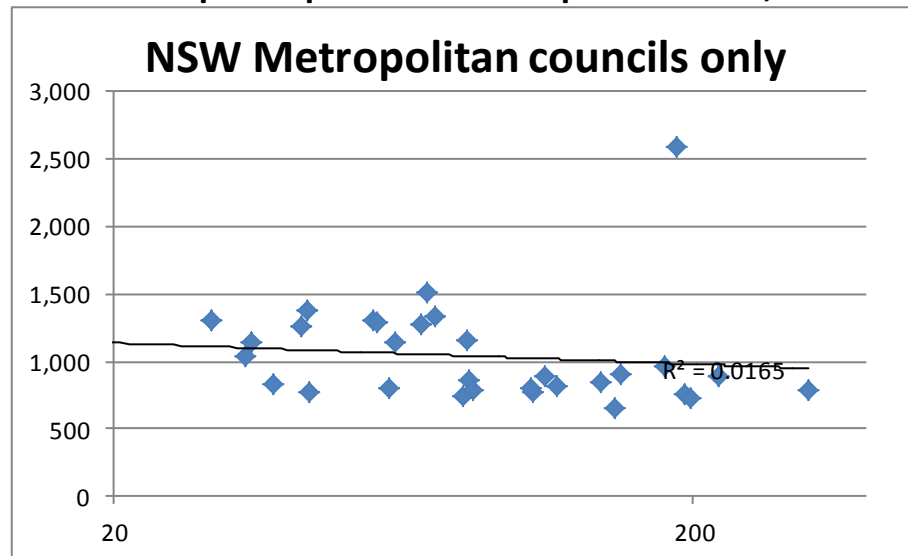
“In any organisation Budget maximising bureaucrats could be a source of inefficiency.”^x

2. Metropolitan Councils

An analysis of the relationship between a NSW metropolitan councils average expense per resident and its population size shows only a weak relationship between unit costs and scale. As can be seen in the following chart the correlation coefficient (R^2) is miniscule at 0.0173.

There are several smaller to medium sized councils whose average cost per resident equals that of larger councils. Also some larger councils have higher costs than smaller ones.

Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

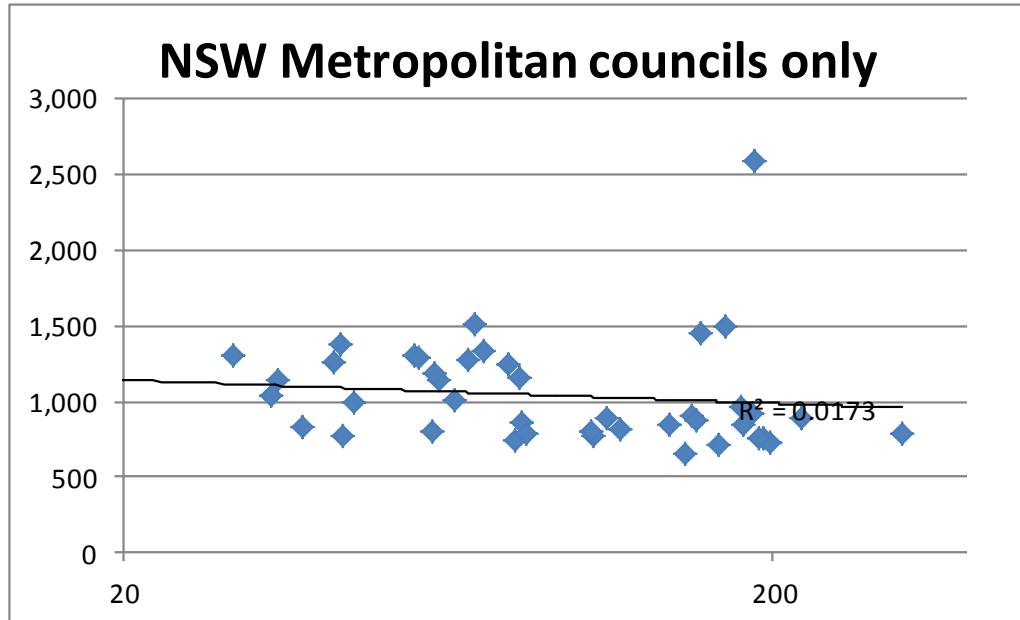
The above chart includes the Office of Local Government's Groups 1, 2 and 3 councils as "metropolitan". However, the following eleven councils in OLG's Groups 6 and 7 are often considered "outer" metropolitan:

OLG Group

- Camden Council 6
- Hawkesbury City Council 6
- Wollondilly Shire Council 6
- Blue Mountains City Council 7
- Campbelltown City Council 7
- Gosford City Council 7
- The Hills Shire Council 7
- Council of the Shire of Hornsby 7
- Liverpool City Council 7
- Penrith City Council 7
- Wyong Shire Council 7

If these “outer” metropolitan councils are included the statistical relationship between a council’s size and its cost per resident does not alter much. Indeed the correlation coefficient (R^2) remains minute at 0.0173.

Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

3. Comparative Data

Amalgamating Eastern Suburbs councils would result in a mega-council.

As recognised by the ILGRP there is no evidence that mega-councils are more financially sustainable than medium sized councils such as WMC.^{xi}

Treasury Corporation found that small to medium sized councils had stronger financial ratios than large to very large councils.^{xii} See next table.

Financial Sustainability Ratios for Councils of Different Size

Key Financial Ratios	Small to Medium Size Metropolitan Councils	Large to Very Large Metropolitan Councils	Small to Medium Size Regional Councils	Large to Very Large Regional Councils
Operating Deficit to Revenue Ratio	2.2%	5.1%	4.1%	4.6%
Borrowings to Net Assets Ratio	0.8%	4.6%	2.7%	6.3%
Infrastructure Backlog Ratio	4.2%	8.1%	4.4%	7.3%

Source: Computed from data provided by NSW Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector - Findings, Recommendations and Analysis*, April 2013, pages 76-78.

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4. Academic Studies

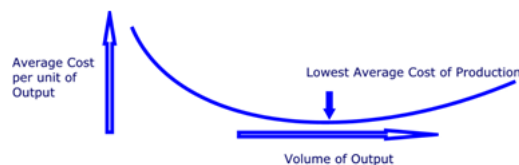
Why should organisations be large?

Almost eighty years ago, Professor Ronald Coase in a ground breaking academic paper, postulated that:

Large organisations, such as companies, make sense when the “transaction costs” associated with buying things on the market exceed the fixed costs of establishing and maintaining a bureaucracy.^{xiii}

Efficiency and Size - Theory

- Organisations have a U-shaped average cost curve in relation to the scale of their operations. Initially larger scale delivers economies, but it then generates diseconomies.



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Economies arise from a division of labour and specialisation of tasks, increased scope for shared services and increased dimensional capacity. But beyond a certain size an organisation exhibits diseconomies because of control span limits, coordination complexity and communication / information network requirements.

A key question in any organisation is what is the optimal scale of operation that delivers the lowest average cost of producing services?

The answer varies depending on the type of service being produced. In multi-service organisations like local councils there may be different optimal scales for each service.

Hence the most appropriate model is not necessarily amalgamation, but outsourcing those functions that offer scale economies to either a shared services centre or large specialist providers while keeping remaining services in-house.

Indeed this has been happening in large private, public and not-for-profit organisations as observed by the Economist magazine some time back:

“Modern technology is shifting the balance of advantage away from firms and towards markets. The current goal is to focus on the few things at which they undoubtedly excel and to hand over everything else to equally focused specialists.”^{xiv}

This is something that Lakewood County and its successors found. Today more than a quarter of California’s cities (about 130) are contract cities based on the Lakewood model. Where small scale is a handicap it is overcome (especially in metropolitan areas) using shared services centres or outsourcing functions (e.g. rate collections, capital works) to specialist providers. Here’s a description of how that blueprint came about⁶

“Lakewood of the early 1950s was David fighting the Goliath of Long Beach, a city intent on gobbling up its unincorporated neighbour parcel by parcel. The legal turf battles were exhausting Lakewood's defenders, most of whom were transplants drawn to the promise of this sleepy village-turned-post-war boomtown. Then along came John Sanford Todd, a struggling attorney and proud Lakewood resident, who dreamed up a way to preserve his community's independence without it going broke: It would become a new kind of city, one that contracted out for police protection, trash collection, firefighting -- just about every service a city provides.

“That practice is commonplace in the USA today, but it was a revelation a half century ago. Todd's vision, dubbed "the Lakewood Plan," became a model of local government that informed incorporation drives throughout Southern California and beyond. Suburbia took shape in a rash of "contract cities," including the neighbouring Dairy Valley (now Cerritos), La Puente, Bellflower, Duarte, Irwindale, Norwalk and Santa Fe Springs, which sprang up in such rapid succession that some observers began proclaiming the end of big cities.”^{xv}

The challenge for organisations in a post-industrial digital information economy is SPEED not SIZE.^{xvi} That is because organisations now need to the flexibility to quickly respond to continuous changes in community expectations and wants, legislative and regulatory requirements, work processes and systems, information technology and communication, plant and equipment and employment skills.

A prime case study is Australia Post when it moved all Sydney’s mail sorting to one building, the Redfern Mail Exchange. Instead of achieving economies of scale the result was a demoralised workforce, union dargs and lower productivity. Australia Post was forced to restore decentralised mail sorting and to focus on the real problem – getting the work flow processes right.^{xvii}



Sydney's Redfern Mail Exchange failed at centralising mail handling in one place

Flexibility is more a characteristic of smaller organisations than larger ones. That's because (a) they source external expertise when needed rather than trying to resource everything in-house and (b) they can focus on a smaller and concentrated client base which requires less coordination than a larger and more dispersed one, and (c) they deal with workload spikes by multi-skilling and task swapping which is less likely in large bureaucracies with well-defined work silos and strict job demarcations.

One study found that only about a third of Australian firms (37%) saw economies of scale as a key driver of competitiveness. Almost three quarters valued quality as the number one source of competitive advantage with ethical business practices in second place. ^{xviii}

The lessons of the private sector resonate with research on local government. Many studies undertaken in both Australia and overseas conclude that there is no compelling evidence that larger urban councils are more cost efficient than smaller ones. ^{xix}

The latest academic research on economies of scale in the 152 NSW local councils concluded that:

"... there is little evidence of scale economies for "metropolitan" councils except in the area of environmental and health services expenditure....

"From a public policy perspective, our results, more generally suggest that local government amalgamation is not an effective instrument for improving the operational efficiency of local authorities, at least in the context of contemporary NSW local government."

"Our analysis has demonstrated that there is little, if any, compelling evidence to support the claim that there are significant economies of scale in the New South Wales local government context. It follows that the current public policy debate on the desirability or otherwise of local government consolidation should not be mounted on the unrealistic prospect of substantial benefits from scale economies."^{xx}

The study also found that *“the existing literature on economies of scale for labour-intensive and capital-intensive local government services is mixed and inconclusive.”*^{xxi} It concluded *“there is no reason to believe that local government amalgamation in New South Wales will result in cost savings.”*^{xxii}

The findings of renowned international and local studies can be summarised as follows:

G.A. Boyne (1992):

“Concentrated structures were associated with higher spending than more fragmented local government and that there may be diseconomy of scale factors operating that outweigh the technical benefits of larger units”^{xxiii}

M. Jones (1993):

“It was once thought that small local governments allowed more community control but were more costly than larger units.

“Now the view is that smaller units are the most democratic and participative, and also the most efficient.

“Research shows that larger units tend to spend more per head than smaller units, even with the same general population characteristics”^{xxiv}

A. Sancton (1996):

“By 1991, the issue had been thoroughly investigated, and there was precious little evidence to support the consolidation position.”^{xxv}

AIUS (Australian Institute of Urban Studies) (1999)

“When combined with the empirical evidence from overseas, the economic and public policy literature supports the contention that there is not a single or standard size that is appropriate for local authorities.

“This has major implications for local government reform in Australia where many stakeholders are firmly of the view that ‘bigger is better’.”^{xxvi}

R. J. Oakerson (1999):

“Fragmentation is associated not with higher, but with lower local government spending per capita. Numerous empirical studies have found this relationship

Moreover the relationship holds up when indicators of public demand for services are controlled, supporting an inference that fragmentation is positively related to efficiency.

“Fragmented metropolitan areas tend to get more service from less spending”^{xxvii}

R. L. Bish (2001)

“The Canadian evidence on the relationship between the structure and performance of local government is consistent with that from European and US experience.

“Research shows, however, that size in itself is not the major determinant of per capita costs, and that governments of different sizes can deliver services efficiently. It is simply not the case that big governments cost less because they can achieve economies of scale.

“In fact, smaller governments can cost less, not because they can produce services efficiently, but because they can take advantage of specialisation and trade in markets without attempting to produce all activities themselves. Instead, they use contracts and joint agreements to obtain services from larger producing organisations where there are economies of scale.

“In the rapidly changing world of the twenty-first century, flexible local governments are better able to provide services at less cost than monolithic amalgamations.”^{xxviii}

J. Byrnes, et al (2002)

“Research in the UK and USA on economies of scale in local government uses a mixture of cross-sectional and panel data to estimate a statistical relationship between size and the average cost of service delivery.

“Overall, 29 per cent of the (24) research papers find evidence of U-shaped cost curves, 39 per cent find no statistical relationship between per capita expenditure and size, 8 per cent find evidence of economies of scale and 24 per cent of diseconomies of scale.

“From this evidence alone we can conclude that there is a great deal of uncertainty about whether economies of scale exist in local government service provision”.

“Despite the broad range of functions carried out by local government in Australia, and the considerable expenditure dedicated to these functions, research on economies of scale is scarce. Table 2 lists nine published studies to date.”

Byrnes' table shows that seven studies found evidence of economies of scale, one found no evidence and one found diseconomies of scale).

Byrnes reviewed each study and concluded:

“Indeed, it has been possible to conclude that no satisfactory Australian study has yet been conducted into economies of scale in municipal service provision.”^{xxxix}

Independent Inquiry into the Financial Sustainability of NSW Local Government (LGI) (2006)

“The LGI examined the considerable research into whether council mergers would result in greater cost efficiencies. It found that the evidence was inconclusive, except perhaps for the smallest councils (under 8,000 in rural areas). Yet in these cases other factors better explained higher costs per resident, especially low population density in remote areas.”^{xxx}

Independent Inquiry into the Financial Sustainability of NSW Local Government (LGI) (2006)

“The Inquiry investigated the extent to which a council’s operating costs per capita were related to its population size... This was not just of academic interest, since, as already mentioned, the case for forcible amalgamations is based on the notion that bigger councils have lower unit costs of producing services.”

“...the extent of correlation between council unit costs and population size was measured by both arithmetic (straight line) and logarithmic (curved line) correlation coefficients (R^2). A result of one (1.0) would mean a perfect correlation while that of zero (0) would mean no fit existed.”

“On the straight trend line the R^2 was 0.22 for metropolitan and urban councils suggesting a very weak link between population size of councils and unit costs.”

“Using a curvilinear trend line gave a better R^2 result for urban and metropolitan councils (0.26...). However, the statistical correlation was still weak, suggesting factors other than population size are the major determinants of cost efficiency in NSW metropolitan and large regional centres.”^{xxxi}

B. Dollery, et al (2006)

“This paper considers the results of a survey of general managers in New South Wales that sought to solicit opinion on which service should be provided locally and which services should be provided on a regional basis.

“The results of the survey suggests that respondents felt that only some services would benefit from regional provision thereby not only undermining the argument for amalgamation as a panacea, but also implicitly rejecting the

view that economies of scale economies are ubiquitous across all services.^{xxxii}

C. Aulich, et al (2011)

“Measurement problems abound in assessing whether or not economies of scale exist. They include failure to specify and scope municipal functions, lack of robust longitudinal data and problems with trying to aggregate municipal functions rather than measure function by function. Demographic characteristics will also influence service mix and cost.

“Recent research using econometric modelling is not yet producing reliable and robust results. Problems of modelling and of significant differences in the production profile between different functions of local government contribute to the difficulties in determining economies of scale with any sense of accuracy.”

“An enduring theme is the perception that municipal consolidation will result in gains through economies of scale. Our review of the literature makes it clear there is insufficient robust research to support this proposition.

“Economies of scale exist when long-running average total costs fall as the scale of production increases, generally where fixed costs are a large proportion of total costs. Services such as water, wastewater and solid waste management provide examples where economies of scale are more likely to be evident.”^{xxxiii}

C. Aulich, et al (2012)

“For example, in the interviews, the rate reductions mandated in the Victorian amalgamations of the 1990s were cited as an example of the potential for generating savings to consumers. We concluded that significant reductions in rates and charges have not been an intrinsic part of consolidation through municipal amalgamation.

“Little credence was given to the view that economies of scale would accrue consistently to amalgamation, as had been predicted from the literature review. Importantly, in the few cases where economies of scale were asserted, the full costs of amalgamation had not 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.

“Almost all respondents recognised that the process of amalgamation itself generated costs that were typically not included in the balance sheet; costs such as disruption, time taken to review service levels and engage communities and compromises which often meant some leakage of cost

savings to ensure buy-in from all stakeholders. Usually these costs were borne by the councils themselves - ironic when amalgamation is often proposed to address financial problems.” xxxiv

J. Drew, et al (2014a)

“We examined whether scale economies exist in local government outlays by analysing the expenditure of 152 New South Wales councils. Initially, council expenditure is characterized by scale economies.

“However, given the correlation between population and population density, it is important to determine whether the influence of population on expenditure is due to variations in population density.

When areas are decomposed into subgroups on the basis of density, the evidence of scale economies largely disappears.”

“Although the results from our linear regression analysis suggest that there may be diseconomies of scale of “metropolitan” councils, these findings appear to be sensitive to alternative model specifications.

“More specifically, our nonlinear regression analysis indicates that there is little evidence of scale economies for “metropolitan councils” except in the area of environmental and health service expenditure.

“On balance there is limited evidence of scale economies.” xxxv

J. Drew, et al (2014b)

“In sum, evidence derived from the three alternate econometric models employed in this paper suggests strongly that expectations of significant economies of scale in Perth metropolitan area local governments are illusory. It follows that implementation of the Panel’s amalgamation proposals would not generate gains from this source.

“The empirical analysis suggests only two of the ten council functional areas of expenditure have potential for efficiencies arising from scale economies. These functions are Recreation and Culture Expenditure (representing 28 per cent of spending) and Governance Expenditure (accounting for seven percent of spending).” xxxvi

Commissioner Graham Sansom, ILGRP (2014)

“Nowhere did Future Directions argue that amalgamations of councils in metropolitan Sydney would improve financial viability.”

“...there is no reference whatsoever in that section of the ILGP report to improving financial sustainability through amalgamations...”

“the need for enhanced capacity and the case for some amalgamations were clearly advanced in terms of four other objectives (ILGP, 2013, p44)...

”The ILGRP’s concerns were with the effectiveness of local government as an arm of metropolitan governance. It focused on the need for what has been described as ‘strategic capacity (Aulich et al, 2014). This is quite different from the ‘straw man’ of financial viability...”^{xxxvii}

5. Shared Services

An important reason for amalgamating councils is to share local government services across neighbouring municipalities. The history of merging common support services (such as finance, ITC, HRM, fleet management, procurement, records, archives) across state government entities is a sorry one in this respect. According to a recent report by the Australian Institute of Management (AIM)^{xxxviii}:

During the last decade, governments in almost every Australian jurisdiction have seized upon shared services as a cost saving option... Sadly while the benefits are clear in-principle, in practice large-scale public sector shared services implementations have almost invariably been problematic. The literature describes overly optimistic business cases, poor governance, bad technology choices and lack of ongoing political sponsorship. The Auditors-General of several Australian jurisdictions have reviewed cost overruns and delays in implementation. In some cases, they have expressed doubt that shared services will ever achieve their promise.

6. ILGRP View

According to Professor Graham Sansom, Chair of the Independent Local Government Review Panel:

“Nowhere did Future Directions argue that amalgamations of councils in metropolitan Sydney would improve financial viability.... It focused on the need for what has been described as ‘strategic capacity’ (Aulich et al, 2014). This is quite different from the ‘straw man’ of financial viability...”^{xxxix}

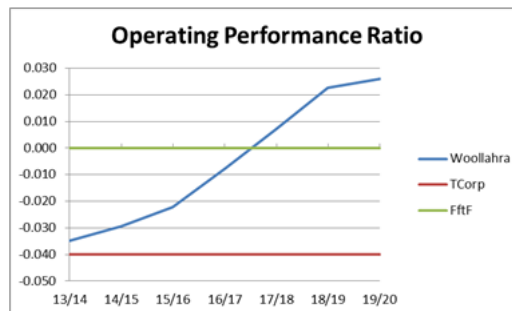
7. T Corp Rating

The 2013 NSW Treasury Corp report gave WMC:

- A “moderate” long term financial sustainability rating (meaning it “marginally exceeded the benchmarks” used in T Corps assessment process),and
- A neutral short term outlook (meaning that the FSR was “likely to remain unchanged” over the next three years).

Since 2011/12, WMC’s finances and outlook have strengthened further against T Corp and FFTF benchmarks and are planned by WMC to keep improving over the next six years. See next seven charts on key financial sustainability ratio results of WMC against the targets specified by T-Corp (2013) and FFTF (2014).

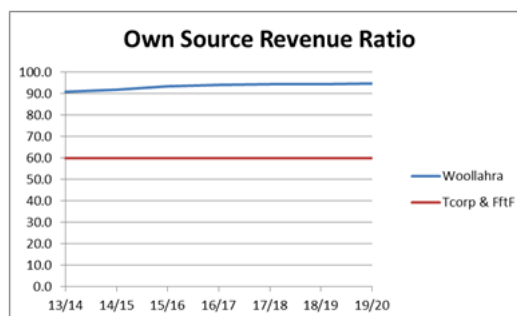
WMC Assessment: Sustainability Indicators



FF Benchmark ≥ 0 (average over 3 years)

Achieved in 2017/18 (potentially 2016/17 subject to current financial year result)

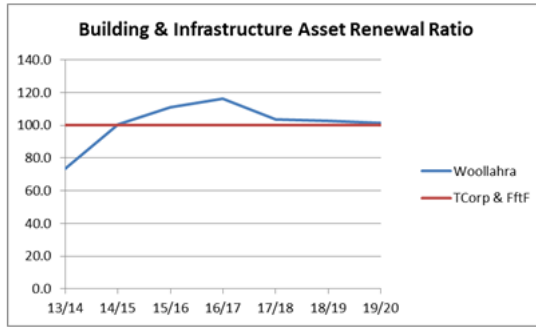
WMC Assessment: Sustainability Indicators



FF Benchmark $> 60\%$ (average over 3 years)

Already Achieving

WMC Assessment: Sustainability Indicators

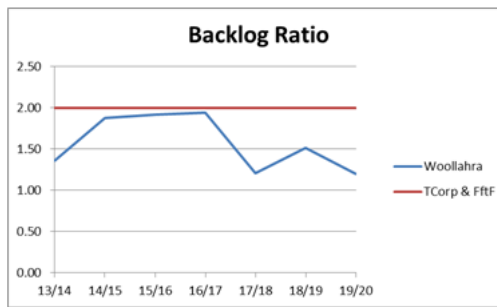


FFF Benchmark > 100% (average over 3 years)

8/01/22 **Achieved in 2014/15**

84

WMC Assessment: Infrastructure and Service Management Indicators

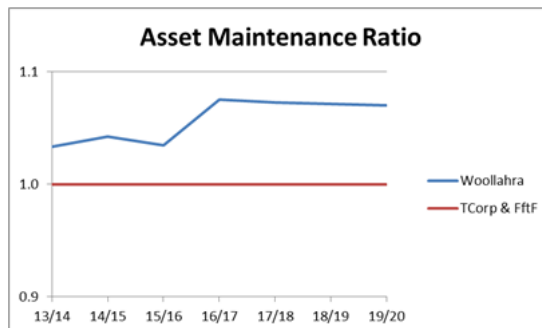


FFF Benchmark < 2%

8/01/22 **Already Achieving**

85

WMC Assessment: Infrastructure and Service Management Indicators

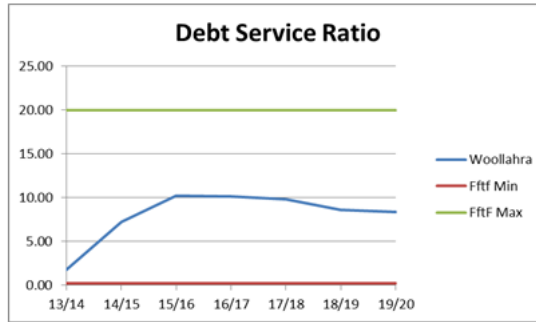


FFF Benchmark > 1.0:1 (average over 3 years)

8/01/22 **Already Achieving**

86

WMC Assessment: Infrastructure and Service Management Indicators

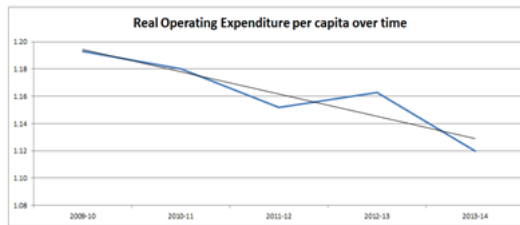


FFF Benchmark > 0% and ≤ 20% (average over 3 years)

8/01/2015 **Already Achieving**

87

WMC Assessment: Efficiency Indicator



FFF Benchmark: A decrease in Real Operating Expenditure per Capita over time.

8/01/2015 **Already Achieving**

88

8. FFTF Rating

Woollahra is already fit for the future on five of the Government's seven financial health check benchmarks:

- Own Source Revenue = 90% (versus FFTF 60%)
- Operating Performance Ratio = **-4.5%** (versus FFTF +1%)
- Building & Infrastructure Renewal Ratio = **75%** (versus FFTF 100%)
- Infrastructure Backlog Ratio = 6.0% (versus FFTF <20%)
- Asset Maintenance Ratio = 110% (versus FFTF >100%)
- Debt Service Ratio = 2% (versus FFTF <20%)
- Real Operating Expense per Resident Reduction = 5% over 5 years (versus FFTF - No specific target recommended)

The Council claims that it will achieve the two outstanding benchmarks (shown in red font) by 2017/18. If so, WMC will prove that it has sufficient scale to be financially sustainable.

Conclusion

Empirical evidence suggests that amalgamating local councils into larger administrative bureaucracies does not make them more cost efficient or financially sustainable. There are no significant economies of scale evident in Sydney metropolitan councils.

In terms of financial sustainability Woollahra Council already meets most Fit for the Future health criteria and expects to achieve all of them by 2017/18.

The chairman of the ILGRP acknowledged that cost efficiency and financial viability was not the objective of its merger recommendations. Rather emphasis was on strategic capacity is addressed in part B of this report.



PART B: Strategic Capacity

Question:

Are there any strategic capacity gains for Woollahra Council merging with its three neighbouring Councils (Sydney, Randwick and Waverley) and Botany Bay Council as proposed by the ILGRP?

Answer:

Except for greater regional advocacy and lobbying to state and federal government authorities and coordinating planning and development approval of regional shopping precincts or major public facilities (e.g. sports stadiums and convention centres) there seem few strategic capacity gains for Woollahra residents becoming part of an enlarged council ranging from Port Jackson to Botany Bay.

A Regional Council of Mayors served by a small Shared Service Centre governed by a Regional Board of Council General Managers could provide the strategic capacity needed for regional advocacy and lobbying and appoint an independent regional planning and approval authority for regional development projects.

Possible risks with merging are:

- Higher rates for Woollahra municipal residents because they have higher land values;
- Service cuts because neighbouring councils, especially Randwick, spend less per resident than Woollahra;
- Loss of community identity because neighbouring councils have a CBD business (Sydney City), Pacific ocean beach (Waverley and Randwick) and Sydney airport (Botany Bay) focus whereas Woollahra connects closely with Sydney Harbour;
- Getting embroiled in Sydney's economic corridor transport planning even though Woollahra's transport network is self-contained;
- Losing the organisational flexibility and responsiveness of a smaller bureaucracy than is possible in an enlarged regional Council;
- Extra costs involved with merging (e.g. standardising work processes and ITC systems, reorganising office accommodation, hiring new staff, equalising pay rates yet not being able to retrench surplus staff for three years) may exceed State Government merger incentive payment.

In 2011, the Australian Centre for Excellence in Local Government took what it described as a “fresh look” at the subject of local government consolidation. It examined available local and international literature, actual examples of council mergers in both Australia and New Zealand and interviewed key opinion-makers who had been involved in such mergers.

Its main findings on making local authorities bigger were:

- “There is **little evidence** that *amalgamation* will automatically yield substantial **economies of scale**.
- “**Efficiency gains** can be achieved through various forms of consolidation, but are unlikely to produce reductions in local rates and charges due to other expenditure needs.
- “What is more obvious is that various forms of consolidation have the **capacity to yield economies of scope**.
- “More importantly, consolidation offers opportunities to achieve **economies of scope** or enhanced **strategic capacity**. This effect may well be strongest in the case of amalgamation into relatively large units.”^{xi}

By “economies of scope”, the authors of the ACELG review meant the ability of a larger organization to produce a wider range of services than a smaller one could do on its own by making more effective use of common inputs. The concept seems to assume that all services need to be produced in-house rather than sourcing non-core requirements externally.

Professor Graham Sansom, Chair of the ILGRP, sees improving “strategic capacity” as the prime justification for mergers.

The key elements of strategic capacity have been defined by the ILGRP^{xii} as:

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ a wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and Federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership

Of these considerations the most powerful in our view are:

- Credibility for more effective advocacy
- Capable partner for State and Federal agencies

However, achieving these outcomes should be possible through a Regional Council of Mayors, a concept canvassed at the end of Appendix A.

A close examination of the other “strategic capacity” elements shows that they either already exist in WMC or are in the process of being achieved within the Council’s present administrative scale.

Furthermore there are serious risks for WMC amalgamating with its four adjoining Councils and Botany Bay which can be summarised as follows:

- a) It could result in higher rates for Woollahra residents;
- b) It could cut service levels and standards for Woollahra residents;
- c) It might weaken Woollahra’s distinct community identity;
- d) It could reduce the Council’s organisational flexibility;
- e) It is not necessary for regional planning and coordination; and
- f) It would be very expensive to properly implement.

Each of these risks is canvassed in the remaining sections of this report. They should be carefully considered before WMC commences any merger negotiations.

1. Higher Rates

Based on research by WMC's Chief Finance Officer^{xliii}, a merged Woollahra would contribute a third of Eastern Suburbs rates income compared with just over a quarter at present. Woollahra ratepayers would pay between \$7m and \$17m a year more in rates.

This research also found:

- A merger of Randwick, Waverley and Woollahra using WMC's existing rating structure would increase rates for Woollahra residents by 22% to subsidise service provision in the other two councils as well as cut rates for Randwick ratepayers.
- Under the rating structures of Randwick and Waverley, Woollahra's rates would jump by 48% to 53% respectively.
- The reason for this is that after a merger, Woollahra would have only 21% of population and 24% of rateable properties, but 41% of total land values.

WMC CFO's Study Findings

- After a merger Woollahra would contribute a third of Eastern Suburbs rates income compared with just over a quarter at present.
- Woollahra ratepayers would pay between \$7m and \$17m a year more in rates.



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2. Service Cuts

A study commissioned by a neighbouring council^{xliii} proposes a major cut to service spending in Woollahra based on Randwick Council having lower total expenditure per resident. However, an examination of the study suggests it is based on dubious assumptions.

The Eastern Sydney Local Government Review (ESLGR) was undertaken by a consultant for Randwick Council and published in February 2013.

- It proposed that a merger of the four councils of the Eastern Suburbs achieve net savings (in 2011 dollars) over ten years of \$454 million by reducing the cost of servicing a dwelling in Waverley, Woollahra and Port Botany to that of Randwick.
- Its assumption that Randwick's lower service cost per capita of \$858 a year (versus Woollahra's \$1,312) is because of greater efficiency is unproven.
- The savings target could debase the range and quality of services demanded by residents of Woollahra who are more affluent than those of Randwick (average income of \$113,742 versus \$58,428).

A critique of the Review is provided in Appendix A to this report.

3. Community Identity

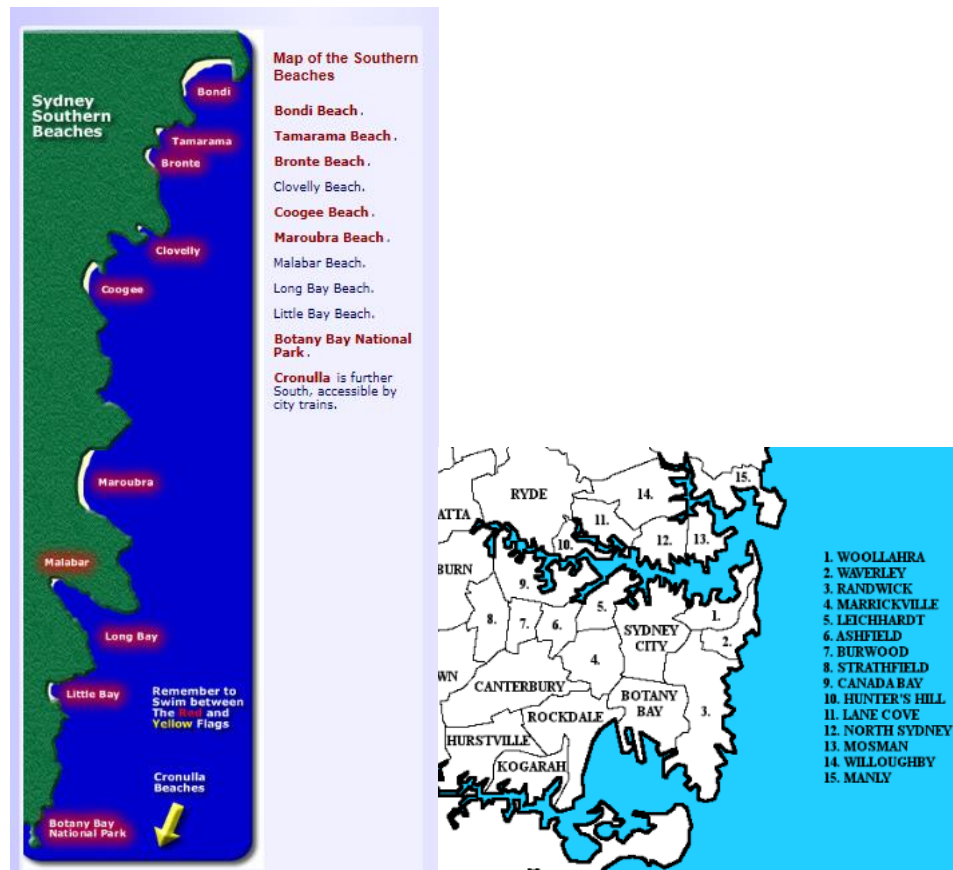
Woollahra municipality is a discrete geographic region. It is bounded to its south by a watershed that tilts its landmass towards Sydney Harbour. The municipality's rainfall drains almost exclusively into Sydney Harbour.

There are 5 significant waterways within the Woollahra municipality; Parsley Creek, Cooper Park Creek, Vaucluse Creek, Rushcutters Creek and Rose Bay Creek.^{xiv} This gives Woollahra community a strong relationship with Sydney Harbour. Its sixteen kilometres of harbour foreshore consists of bush lands, rocky headlands, coastal cliffs and small beach enclosures. Its harbour parks, swimming pools and sailing clubs reinforce its distinct harbour culture.

Waverley, Randwick and Botany Bay councils belong to a separate water catchment area that drains into the Tasman Sea or Botany Bay. The Municipalities of Waverley and Randwick (see map below) to their west contain grand parks such as Centennial Park, Moore Park and Queens Park which exhibit formal gardens, ponds, grand avenues, statues, heritage buildings, sporting fields and golf courses.

Bustling Bondi Junction (which is connected to the City by railway) is the main retail centre for residents of Waverley and Randwick. To their east these municipalities have the famous surfing beaches of Bondi, Tamarama, Bronte, Clovelly, Coogee, Maroubra and Malabar.

The combination of inner Sydney parklands and Pacific Ocean surfing beaches in Randwick and Waverley stands in sharp contrast to the Sydney Harbour foreshores and boutique shopping centres of Woollahra. This goes to demonstrate that water catchment by defining the topography of an area can largely define its social identity.



Woollahra's higher socio-economic status also makes it stand out from other local government areas in Sydney and NSW generally.

This gives it a distinct geographic identity from its surrounding municipalities. Its main social centres are cosmopolitan Double Bay, stylish shopping strips along Oxford St and Queen St and the cafes and pubs of Paddington which is renowned for historic terrace housing and complex road and walkways.

- The Eastern Suburbs which is renowned for its Pacific Ocean surfing beaches (e.g. Bondi, Coogee, Clovelly), public institutions (University of NSW and Prince of Wales Hospital) large parklands (e.g. Centennial, Queens and Moore);
- The City of Sydney which accommodates Australia's largest business and financial district as well as popular shopping and tourist precincts (e.g. The Rocks, Darling Harbour and Botanical Gardens), cultural centres (Opera House, Mitchell Library, NSW Art Gallery, Australian and Powerhouse Museums) and public institutions (UTS and Sydney University and Prince Alfred Hospital) and inner southern and western suburbs; and
- Botany Bay which hosts Sydney Airport and Sydney's major freight port as well as light industrial suburbs.

Woollahra municipality's main transport corridors (New South Head Road and Old South Head Road) act as its east-west spine and do not cut across neighbouring councils. Anzac Parade which runs north south connects much of the rest of the Eastern Suburbs but does not traverse Woollahra municipality.

The self-contained nature of WMC means regional collaboration on transport or other infrastructure is not a pressing priority as it may be in other parts of the Eastern Suburbs where social and economic interaction is closer.

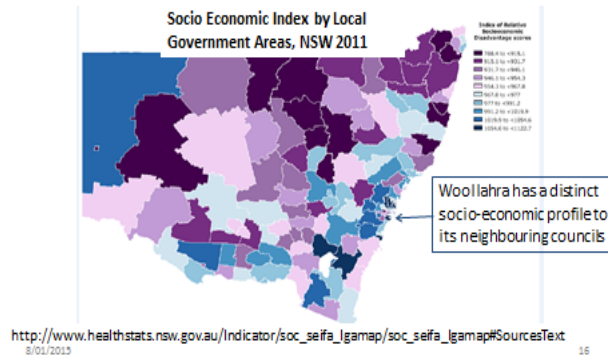
The Woollahra community has a strong relationship with Sydney Harbour especially its foreshore parks, beaches and sailing clubs. The rest of the Eastern Suburbs identifies closely with surfing beaches and the City with its business and shopping precinct, tourist sites and inner southern and western suburbs. Separate water catchment areas and socio-economic status markers reinforce Woollahra's topographic and cultural distinction from its neighbouring municipalities.

An Australian Productivity Commission survey found that Woollahra, after Mosman, has the strongest sense of community identity of any municipality in Sydney.^{xlv} This suggests that there could be fierce resistance to any forced amalgamation with neighbouring Councils, three of which exhibit lower social capital. Many Woollahra residents because of their professional and entrepreneurial backgrounds are affluent, articulate and confident. This could make them strong adversaries in any showdown over local autonomy and representation.

Indeed a survey of local residents found that 84% objected to a merger.^{xlvi} The community's concern is with loss of identity and autonomy (within a much larger region), access and representation (to a merged entity located outside Woollahra elected with a bigger business vote), higher rates (because of higher property values) and lower service spending (as envisaged by Randwick's merger study).

Merging may submerge local identity

- Woollahra's higher socio-economic score distinguishes it from most other LGAs in Sydney and NSW generally.



Woollahra's residents display a higher socio-economic status than residents of neighbouring councils based on three key indices compiled by the Australian Bureau of Statistics. See next chart.

Woollahra's distinct socio-economic profile

- Woollahra municipality's distinct socio-economic profile is reflected in several indexes as shown in the table below.

Local Government Area	Socio-Economic Index	Education & Occupation Index	Economic Resource Index
Woollahra	1107.0	1192	1040
Waverley	1079.6	1160	1002
Randwick	1042.7	1114	980
Sydney	1019.9	1154	894
Botany Bay	975.7	1004	962

<http://www.abs.gov.au/ausstats/abs@.nsf/DetailsPage/2033.0.55.0012011?OpenDocument>

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A unstated motive for mergers might be to help poorer councils by cross-subsidising them with revenues from richer councils.

However, the narrow property linked revenue base of local government in Australia (and more so New South Wales because of rate pegging) means that local councils have to focus on basics (e.g. roads and footpaths, rubbish collection and recreation facilities) since they cannot afford a wide range of people services (e.g. education, health, transport, law enforcement, etc.) provided by local authorities in America and Europe.

As a result there is limited scope to use Australian local government for redistributing income or wealth between households and localities.

Nevertheless an unstated objective of mergers is to help poorer councils by cross-subsidising them with revenues from richer councils.

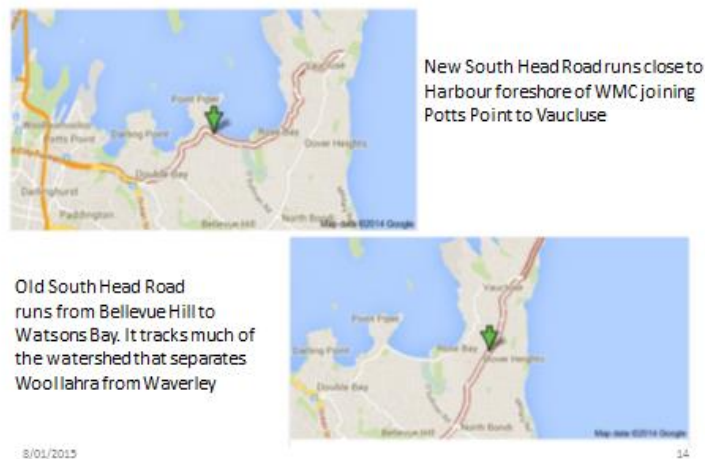
Yet the same outcome could be achieved through redistributing existing government grants that already account for 28% of total NSW local government revenue. The Alliance of Sydney Metropolitan Councils made such a submission in 2013 which if implemented would greatly assist the most disadvantaged councils.^{xlvii}

As for Woollahra being a source for such redistribution within the Sydney City - Eastern Suburbs conurbation, none of the Councils within the region was found by NSW Treasury Corp to be financially disadvantaged except Botany Bay, which could be assisted by a redistribution of existing government grants that already account for 28% of total NSW local government revenue.

4. Regional Planning

Woollahra municipality's main transport corridors (New South Head Road and Old South Head Road) act as its east-west spine and do not cut across neighbouring councils. Anzac Parade which runs north south connects much of the rest of the Eastern Suburbs but does not traverse Woollahra municipality.

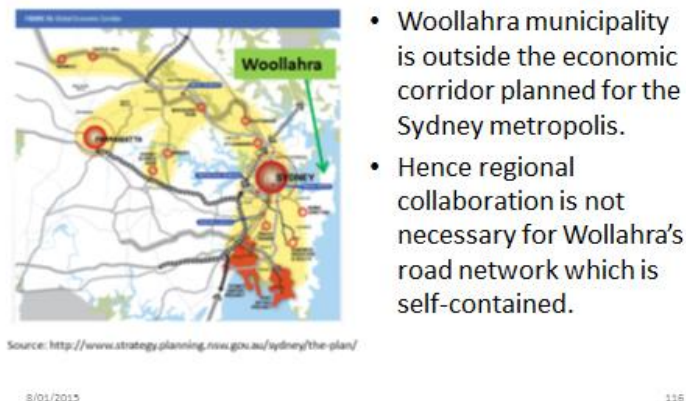
Woollahra's Transport Spine



The self-contained nature of WMC means regional collaboration on transport or other infrastructure is not a pressing priority as it may be in other parts of the Eastern Suburbs where social and economic interaction is closer.

Woollahra municipality is outside the economic corridor planned for the Sydney metropolis. Hence regional collaboration is not necessary for Woollahra's road network which is self-contained. Its mass transport is confined to its main roads that lead to a dead end at Watsons Bay.

Sydney's Economic Corridor



Regional planning outside a major economic corridor is best done at a local level. Local strategic thinking and policy making is easier to do in a smaller organisation than a larger one because the CEO has a narrower span of control with fewer issues and stakeholders so can give them closer attention. Also in smaller organisations managers are more likely to employ outside help (e.g. specialist contractors) who brings a fresh perspective.

The Councillors of WMC all come from professional backgrounds with prior board and/or committee experience. This equips them with a capacity to deal with both strategic and policy issues coming before Council. The Council's executive management team has collectively 80 years of senior executive experience.

As mentioned previously, there is not a pressing need to step up interaction with either State or Federal agencies because Woollahra municipality is not a major transport corridor for municipalities to its south or west. The main thoroughfare to the Airport is Botany Road and to other parts of the Eastern Suburbs is Anzac Parade, both of which run outside Woollahra municipality.

Road transport between Woollahra municipality and the Sydney CBD is via William Street which passes under Kings Cross. Road access to the Western, Southern and Northern Sydney is already well served by the Cross City Tunnel which is also outside Woollahra.

5. Organisational Flexibility

WMC's existing organisational structure allows core personnel to be supported by outside contractors and part-time help. This enables a diverse and deep range of expertise to be sourced when needed instead of trying to do everything in-house in an enlarged bureaucracy. Such a shamrock style organisational structure is widely recognised in management texts as amongst best practice administrative models.^{xlviii}

A Shamrock Structure



Source: Charles Handy, *The Age of Unreason*, London, 2002

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A major Australia-wide study comparing organisational culture in small medium and large organisations found that “...*smaller organisations were perceived to be significantly more supportive, competitive, innovative, and performance oriented than large organisations*”.^{xlix} A merger would threaten that can-do culture which comes with a smaller Council structure where work demarcation is less pronounced and staff members are expected to be multi-skilled and help across a range of duties.

An important part of strategic capacity is having advanced skills in strategic planning and policy development. Such work even in the largest companies is done by small units because its staffing requires quality rather than quantity.

Strategic thinking and policy making is easier to do in a smaller organisation than a larger one because the CEO has a narrower span of control so has fewer issues and stakeholders to address so can give them closer attention.

Occasional strategic reviews are assisted with outside help that bring a fresh perspective. Large organisations that rely only on internal staff can become set in their views, remote from reality and slow to react to events.

Kaihan Krippendorff, author of *Outthink the Competition* and CEO of Outthinker, a strategic innovation firm, says:

“Best practices for large companies dictate they should plan carefully. They should adopt an annual planning rhythm, survey their environments, build scenarios, set strategies, and monitor their results. But for small companies, the winning recipe may be precisely the opposite.... They win because they are more nimble, quicker to seize unexpected opportunities, than their larger competitors. Long-term planning can slow them down and kill this advantage.”

6. Merger Costs

A merger would be very expensive because of the costs involved in standardising administrative processes, ITC systems, accommodation, plant and equipment across divergent organisations. The cost of achieving this could exceed the \$22.5 million being offered as a subsidy to a new council once design and consulting fees, new plant and equipment and building recycling costs are includedⁱⁱ.

Under section 354F of the Local Government Act Council staff (other than senior staff) may not be forcibly made redundant within three years of a council merger. During this period multiple salary systems will operate in parallel and the conditions of employment of transferred employees shall continue unchanged unless salted by agreement or law. Two months before the end of the transition period displaced employees who have not been integrated within the merged councils new organisation structure may have their employment terminated with redundancy pay in accordance with their awards^{lii}. The extra cost of hiring new staff as well maintaining employees surplus to need because of organisational restructure, process and system re-engineering, office and depot relocation, skill mix changes and strategic and policy program reprioritisation cannot be estimated at this stage.

With a large average employee cost disparity between the five councils (e.g. Randwick \$95,000 pa versus Sydney City \$58,000) staffing costs could blow out should unions successfully demand equalising the remuneration of occupations of equal value immediately following an amalgamation. In any event after a three year transition period is completed such a pay equalisation seems inevitable under the government's guideline that *"new structure, salary system and employment conditions will apply to all employees of the new Councils from this date"*.

The total cost of pay equalisation is hard to estimate, but if the average hourly cost per employee of Woollahra, Waverley and Botany Councils rose to that of Randwick Council, the extra bill would be \$19.3 million per annum based on 2012 data^{liii}. Including the City of Sydney Council the additional total employee cost for the merged five Councils would be \$86.0 million per annum^{liv}.

Even if the flow on effect was only half these amounts (say \$9.7 million and \$43.0 million respectively), the extra annual cost would be considerable.

.....

Conclusion

WMC will not necessarily become “Fitter” by becoming “Fatter” through merging with neighbouring councils. Indeed there are six major risks in so doing which are outlined above. It is not clear what advantages would accrue to the residents of Woollahra from diluted representation on a single City-Eastern Suburbs Regional Council and an enlarged bureaucracy to administer this disparate conurbation.



Appendix A: Merger Study

Fit for the Future

- Critique of Merger Study



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The Eastern Sydney Local Government Review (ESLGR) was prepared by SGS Economics & Planning (SGSEP), a private consulting firm, at the request of Randwick Council. It was published in February 2013.

It estimates that a merger of the four councils in Eastern Sydney would generate net savings (in 2011 dollars) over ten years of \$454 million based on its preferred Option 3.

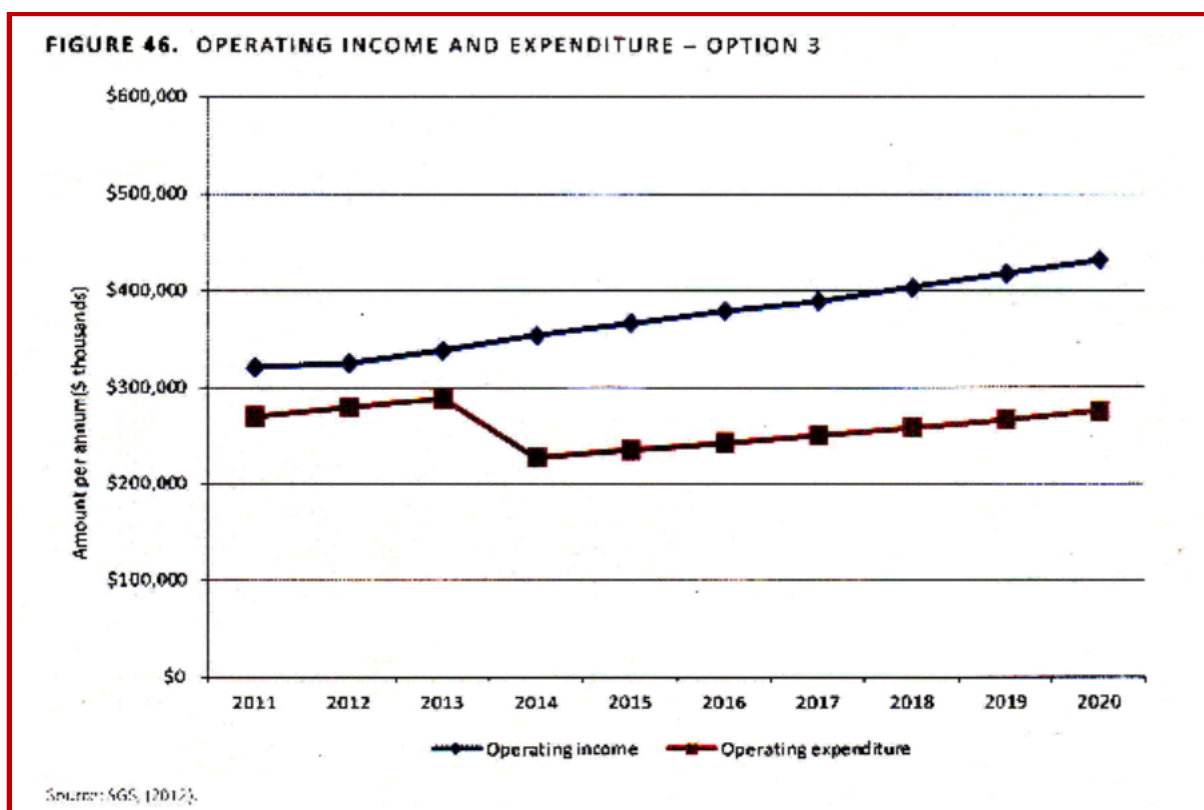
Option 3 envisages a merger of the four councils of Randwick, Waverley, Woollahra and Botany Bay (other than mascot airport)

SGSEP's ten year financial projections for a base case (no mergers) and four merger options use each council's long term financial planning data, standardise it to the same annual inflation, employment and dwelling growth data, manipulate it to show savings from merging council activities and then discount the annual cash flows to single lump sums expressed in 2011 dollars.

The basic assumptions underlying SGSEP's financial modelling of the impact of a merger are:

- There are no merger savings in the first three years (2011-2013);
- Thereafter, the average Council cost of servicing a dwelling in Waverley, Woollahra and Port Botany (except for parking, health, environment, recreation/culture activities) falls to that of Randwick.

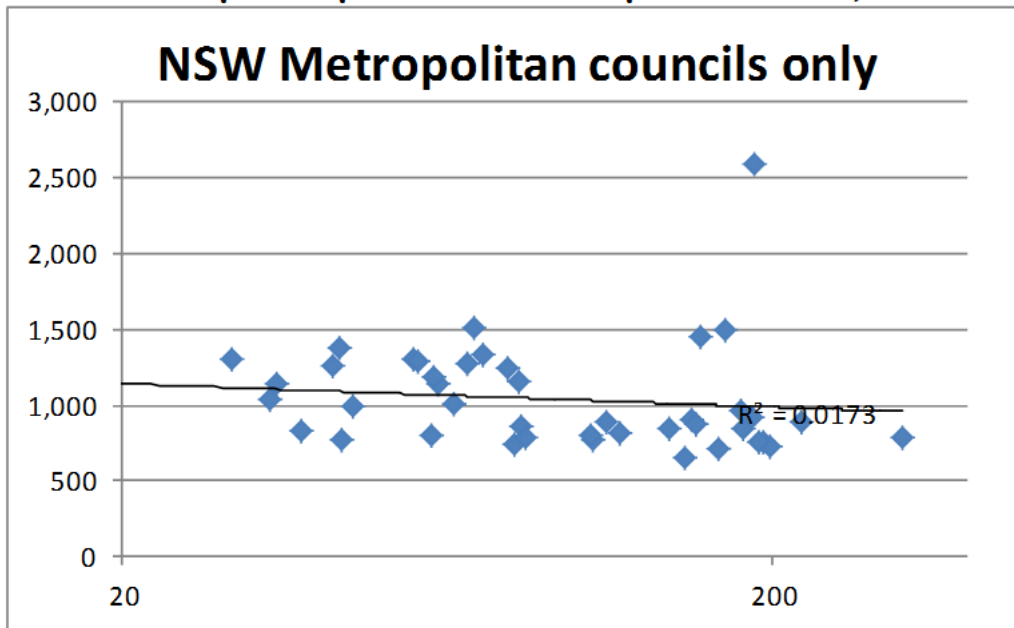
SGSEP's Financial Projections



Note to Chart: The ELSGR assumes that by the fourth year of amalgamation, average service costs of Woollahra, Waverley and Botany fall to those of Randwick thereby increasing Eastern Sydney's combined annual operating surplus from \$50 million to \$125 million.

Sydney metropolitan councils show no significant economies of scale (i.e. average council cost per resident has no bearing to council size). See next chart.

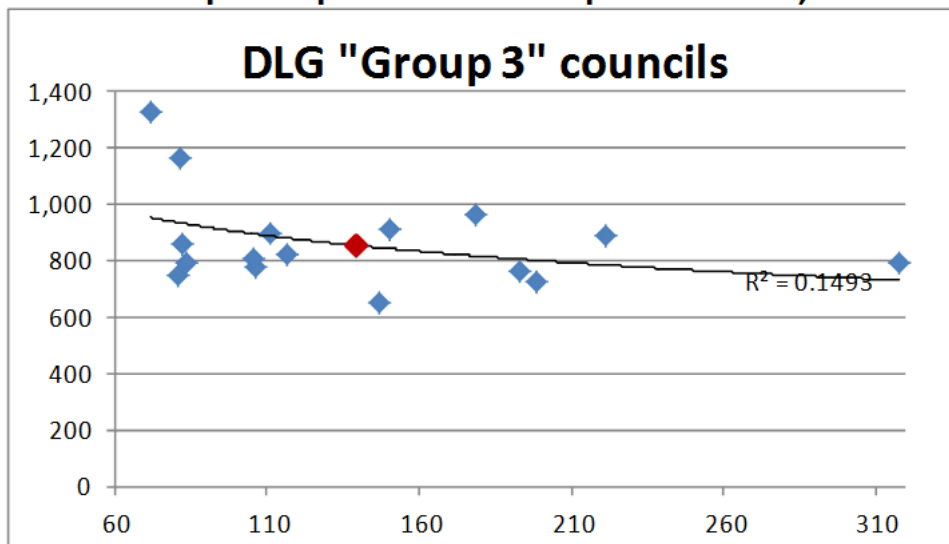
Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

To say that Randwick Council is a benchmark for an enlarged council created by merging existing councils ignores that other metropolitan councils that are larger than Randwick Council exhibit have both higher and lower average expenditure per resident with the overall picture showing no significant economies of scale. So replacing existing council administrations with a larger bureaucracy will not necessarily cut unit costs.

Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

A 2011 survey of local and international literature by three academics (including the later Chair of the ILGRP, Graham Sansom) found that:

“Overall, there is little evidence that amalgamation will of itself yield economies of scale in service delivery greater than those achievable through shared service arrangements, or that such economies are available across many of local government’s functions beyond fairly limited thresholds.”^{lv}

The 2013 Independent Local Government Review Panel (ILGRP) Final Report in reviewing past results of council mergers referred specifically to the work of six academics (including Graham Sansom, the Chair of the Panel) who found that:

“There is little evidence that amalgamations will automatically yield substantial economies of scale.

“Efficiency gains can be achieved by various forms of consolidation, but are unlikely to produce reductions in local rates and charges due to other expenditure needs.”^{lvi}

Professor Sansom rejected cost savings as the *raison detre* for amalgamation after he had concluded his Chairmanship of the Independent Local Government Review Panel (ILGRP). When two academics said that the ILGR had claimed *“that the radical forced amalgamation of Greater Sydney councils will improve their financial viability”*, Sansom’s response was:

“Nowhere did Future Directions argue that amalgamations of councils in metropolitan Sydney would improve financial viability. Drew and Dollery refer to: ‘the ILGRP’s repeated assertions that there is a direct link between population size and council capacity and council financial sustainability (ILGRP, 2013, pp. 44–46)’. This is untrue. First, there is no reference whatsoever in that section of the ILGRP report to improving financial sustainability through amalgamations, let alone ‘repeated assertions’.”^{lvii}

Oddly enough, the Independent Pricing and Regulatory Authority (IPART) also thought the ILGRP was advocating mergers on efficiency and sustainability grounds since it said *“The Review Panel emphasised that focusing on scale would ensure... Greater capacity to leverage operational and administrative efficiencies, thereby improving service delivery and the potential to sustainably fund infrastructure renewal.”*

Yet Professor Sansom is adamant that was not the ILGRP’s intent. Indeed, Professors Sansom and Dollery seem to agree that council mergers should not be undertaken for reasons of cost efficiency or financial sustainability.

To quote Professor Brian Dollery, Australia’s most widely published academic on local government:

“The results of amalgamations (in Australia) has not met expectations.”
“...structural change through compulsory council consolidation have not been effective in achieving their intended aims of meaningful cost savings and increased operational efficiency.”^{lviii}

Professor Sansom’s case for mergers rests largely on improving strategic capacity, which is not about cost savings, because he recognizes that the empirical evidence for bigger councils being cheaper is inconclusive.

Other shortcomings in the ESLGR are:

- Its cost savings assume that after amalgamation each council may keep its existing council rate, fees and charging structures even though Council expenditure per dwelling in Waverly, Woollahra and Botany Bay would be reduced to that of Randwick.
- It does not explore the financial impact of equalising revenue raising efforts across the four councils which would be mandatory under the law.
- It does not calculate the costs of amalgamation and simply assumes these will be offset by undefined savings in the first three years.
- It does not recognise that the large average wage disparity between the four councils (e.g. Randwick \$95,000 pa versus Botany Bay \$66,000) could trigger a blowout in staffing costs of roundly \$10 million to \$19 million as a result of wages equalisation that typically follows a merger (see Merger Costs on page 43 of the main part of this report).

The Review’s multi-criteria assessment is largely based on claims that larger councils have potential to:

- Provide increased specialisation, scope and refined processes in service delivery;
- Potential...to cater for asset management and renewal requirements;
- Potential...to improve overall financial sustainability; and
(Offer) clarity of alignment with sub-regional planning by state government. (ESLGR, page 79)

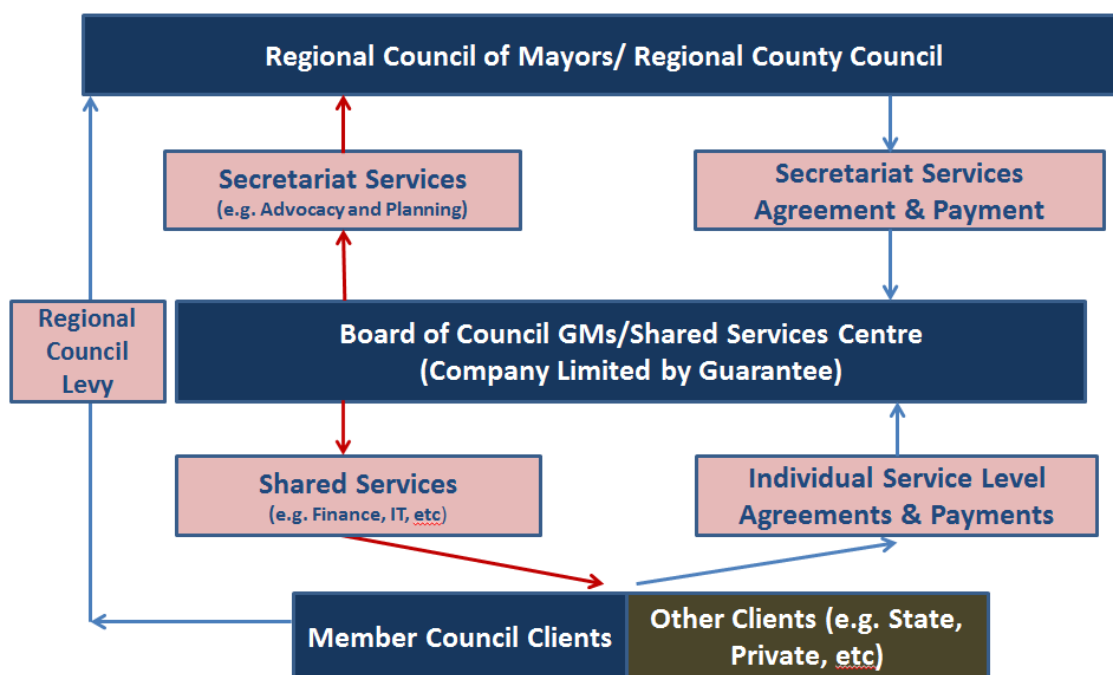
The Review does not present evidence that NSW Councils with populations in excess of 200,000 (Wollongong, Fairfield, Lake Macquarie, Sutherland and Blacktown) excel on the above performance criteria.

Although WMC favours remaining a stand-alone entity given the distinct nature of its area, an alternative to merging the four Councils of Sydney, Randwick, Waverley, Woollahra and Botany is a two-part legal structure comprising:

- A Regional Council of Mayors (constituted as a County Council) to conduct regional advocacy and lobbying and to engage with the State Government in regional growth planning and related decisions; and
- A Regional Shared Services Centre (a Company Limited by Guarantee governed by a Board of Council GMs) to provide shared services to its member Councils, the Regional Council of Mayors, a Joint Regional Planning Panel and other prospective clients.

Such a structure is illustrated in the following chart.

Possible Joint Regional Organisation



2/03/2015

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End Notes

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- iii - Hoffman, G and Talbot, S, *Amalgamation: The Queensland Experience to Date: Learnings, Outcomes and Sustainability?*, PowerPoint presentation to 2013 Future of Local Government – National Summit, Melbourne, 22-23rd May 2013, slide 3.
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[http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/46D63EB39AA403C5CA257C4300172E40/\\$File/31010_jun%202013.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/46D63EB39AA403C5CA257C4300172E40/$File/31010_jun%202013.pdf) and
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- viii - Lawrence Southwick, *Economies of Scale in Local Government: General Government Spending, Scientific Research*, iBusiness, 2012, Vol 4, page 275.

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- ix - Present populations projected from past data in:
<http://www.olg.nsw.gov.au/public/my-local-council/NSW-local-government-comparative-information/individual-council-reports> Future populations drawn from - NSW Dept of Planning and Infrastructure, *New South Wales in the future: Preliminary 2013 population projections*, Aug 2013, page 36.
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- xi - Sansom G, Debate: The case for local government amalgamations in Sydney: Fact and Fiction, *Public Money and Management*, 2015, 35:1, page 65.
- xii - Computed from data provided by NSW Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector - Findings, Recommendations and Analysis*, April 2013, pages 76-78.
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- xiv - *Special Supplement: The Future of the Company*, *The Economist*, 22nd Dec 2001.
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