

International Experience of Local Government Amalgamation Exercises

The Royal Commission on Auckland Governance has been charged with reporting on what cost-effective local government arrangements in the region are required to ensure the region supports the current and future well-being of its communities and contributes to wider national objectives. A specific aspect of the inquiry is the governance and representative arrangements.

The idea of a single unitary governing institution for the region is one model that has been advocated by some parties. Inevitably questions about the effectiveness and efficiency of a single governing institution arise. What would be the financial benefits of a single governing body? What would be the impacts on local democracy?

This paper uses Canadian and Australian literature to explore the impacts of local government amalgamation. These countries have been selected because both countries have undertaken significant municipal reform programmes much of which has had a significant financial component, and in the case of Australia, local government has a 'services to property' role that is similar to that of New Zealand local government.

Local government in Australia and Canada has undergone significant reform. In Australia each state progressively examined and reformed its Local Government Act between 1989 and 1996. Reforms in the state of Victoria resulted in some 210 councils being amalgamated into 78, while reforms in Queensland are ongoing (see Aulich (2005) for a more detailed history of local government in Australia). In Canada, the City of Ottawa Act (1999) provided for the amalgamation of the former Region of Ottawa-Carleton, the former cities of Ottawa, Nepean, Kanata, Gloucester, Vanier and Cumberland, the former townships of West Carleton, Goulburn, Rideau, and Osgoode, and the former village of Rockcliffe Park into the new City of Ottawa¹. Significant amalgamations have also occurred in Toronto and Ontario.

Much of the arguments in support of amalgamation have been that the economic efficiency of a local authority increases with size. This claim has at its base a theoretical perspective that suggests local government services are characterised by considerable economies of scale and scope (Byrnes and Dollery, 2002; Vojnoic and Poel, 2000). Economies of scale refer to a decrease cost per person for a given service as the population served increases. Economies of scope refer to the economic benefits resulting from providing a range of goods and services within a single organisation (Dollery and

¹ City of Ottawa population in 2001 was 774,072. The 2001 populations of the respective areas were Ottawa, Nepean (124878), Gloucester (110264), Vanier (17632), Cumberland (52430), West Carleton (17267), Goulburn (23604), Rideau (12695), and Osgoode (17607). Populations of Kanata and Rockcliffe Park 2001 not available.

Cruse, 2004 p. 268 and 269). Other arguments used by proponents of amalgamation are that larger councils can economise on the administration and compliance costs. Another less cited argument is that the redrawing of boundaries along ecological lines will result in economic and environmental advantages.

The economic benefits of amalgamation have been used to justify recent many municipal reforms. For example when Toronto was amalgamated in 1998 a total annual target for cost reductions was \$167.3 million (Schwartz, 2003). These savings would be made possible “through reductions in expenditures of the amalgamating programs” (City of Toronto, cited in Slack 2000). In Queensland the 2007 Local Government Reform Commission was established to recommend the most appropriate structure and boundaries for local government in Queensland. The expected outcomes of this reform, are stated as being

1. A stronger voice for local communities at the State, national and international level;
2. Better resources to plan and deliver essential local infrastructure;
3. Better resources to implement long-term local planning, with an emphasis on managing growth while protecting Queensland unique environment;
4. Stronger local government workforces, focussed on servicing communities;
5. Less duplication, less red tape, less politicians and better use of your rates;
6. A focus on services, not administration; and
7. Better road and infrastructure planning (www.strongercouncils.qld.gov.au)

One of the pertinent questions raised in response to these stated outcomes is, “Has amalgamation produced the savings envisaged”? Australian researchers have argued that where post- amalgamation research has occurred into economies of scale, findings are inconclusive. For example both Brynes and Dollery (2002) and Dollery and Cruse (2004) provide useful overviews of the evidence for economies of scale in local government. Brynes and Dollery (2002), reviewing international literature primarily from the UK and US, find that

“29 per cent of research finds 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 find diseconomies of scale” (p. 393).

In highlighting the inconclusive nature of the economies of scale argument, both the papers referenced above draw attention to the methodological difficulty in researching economies of scale within the context of local government institutions. Economies of scale refer to a decrease in the cost per person of a service as the population increases. But Australian local governments, unlike private firms that produce a single service or product, provide a wide range of goods and services

“...that are produced by heterogeneous means. Accordingly, for a given benefit region, there is no a priori reason for different goods and services to exhibit the same cost characteristics” (Brynes and Dollery, 2002 p. 268).

Because of the diversity of services provided by local governments, the economies of scale debate needs to be thought about in relation to specific services and products. A fixed asset such as a water treatment plant may yield economies of scale as the cost of an asset can be spread across a greater number of people, while a labour intensive service, such as health inspectors “generate few scale economies because of their idiosyncratic nature means an increased volume of service requires a correspondingly larger number of employees” (Dollery and Fleming, 2005, p. 7).

Post-amalgamation research considering the city of Toronto also highlights the difficulty in reaching firm conclusions on economies of scale. On January 1, 1998, the new City of Toronto (population 2.4 million) came into being by replacing the former metropolitan level of government and its constituent lower-tier municipalities (Toronto, Etobicoke, North York, Scarborough, York and East York) with a single-tier city.

In her preliminary assessment of the Toronto amalgamation, Slack (2000) concludes that while there may have been good reasons to undertake the amalgamation, “*it is highly unlikely, however, that the amalgamation will lead to cost savings. On the contrary, it is more likely that costs will increase*” (p. 17). This conclusion is reached partly because increased costs resulting from expanding services such as solid waste collection and new staff requirements for fire fighting have not been included as part of the amalgamation.

Schwartz (2003) reaches stronger conclusions. While amalgamation has increased service levels in areas of Toronto, he argues that amalgamation has increased costs and “has produced an untenable financial situation for the new city” (p. 18). This unstable financial situation is an outcome of a number of issues, one of which was the required harmonising of wage levels between the areas that were amalgamated. More recently, public columnists, reflecting on 10 years since the Toronto amalgamation have characterised these reforms in a negative manner (see James, 2008; Hume, 2008). Interviews with mayors of areas that were incorporated into the new city of Toronto have also been highly critical of the amalgamation and what it has (or has not) provided in their local area.

Contrary to the research of Slack (2000) and Schwartz (2003) perspectives in support of amalgamation were put forward at a sponsored a symposium on municipal finance and governance reform in 2001 sponsored by the Canadian Tax Foundation (see Mayroyannis 2002). Michael Garratt (the former chief administrative officer, City of Toronto) argued that municipal changes undertaken in Toronto had resulted in expenditure savings and Beckstead argued that the primary benefits of amalgamation in Ottawa were savings and less Government. It should be noted though that these analyses come from an overview of the symposium and do not include the detail behind the analysis.

Referring to work conducted in Australia, Dollery and Crase (2004) cite Allen (2003) and state that

“whereas the Victorian State Government claimed that its amalgamation programme would yield direct cost savings of 20 per cent, the net results has been only 8.5 pr cent, most of which was derived from competitive tendering and not restructuring”(p.75). Similarly, in South Australia the authorities promised savings of 17.4 per cents, but only achieved a mere 2.3 per cent” (p. 75).

It therefore seems reasonable to conclude that no definitive answers concerning the economic outcomes of amalgamation exist and these arguments do not have a strong evidential base, despite their frequent usage. Indeed Brynes and Dollery (2002) state that

“in the recent NSW Government Inquiry into the structure of local government in Sydney, Commissioner Kevin Sproats (2001, pp. 6 and 36) was obliged to observe in relation to the economic benefits of amalgamation that “conclusive evidence is not available” and existing evidence is “suggestive rather than conclusive” (p. 391-392).

Another research direction has been to explore the public view on the perceived benefits of amalgamation. The focus on public opinion is of interest as the post-amalgamation research that has been conducted has tended to focus on the legal, institutional and organizational arrangements of these changes. Little has explored how citizens have participated in or viewed these changes.

Pole (2000) uses a 1999 Halifax Regional Municipality (HRM) Citizen Survey to study citizen responses to a municipal amalgamation that created the Halifax Regional Municipality. This survey explore citizens assessments of amalgamation three years after the experience and what factors best explain citizens’ views towards amalgamation. The survey found that opposition to the amalgamation legislation and its outcome increased since amalgamation took place. 66% of citizens opposed amalgamation in the 1999 survey compared with from 42% in 1995 (when the amalgamation occurred). The table below outlines the survey results.

	1995 Pre-amalgamation Survey	1997 HRM Citizen Survey	1999 HRM Citizen Survey
Strongly oppose	--	33%	39%
Oppose	42%	26%	27%
Neither favour nor oppose	19%	20%	20%
Favour	39%	16%	11%
Strongly favour	--	5%	3%
Total Respondents	100% (1,267)	100% (1981)	100% (743)

Note: The 1995 pre-amalgamation survey only asked respondents whether they were in favour, not in favour or neither. It was conducted for a committee of the CAOs of the former municipalities in their counter-amalgamation effort (Corporate Research Group 1995).

The table clearly shows that the proportion of residents in favour of the amalgamation has declined over time. Pole (2000) concludes that the residents did not link amalgamation in a positive way to service improvements and most considered services to have stayed the same. Similarly research was undertaken in 2003 in three Ontario municipalities that assessed public attitudes to amalgamation. The research shows that in some of these areas, opposition to amalgamation hardened over time (McKinlay Douglas Ltd, 2006).

The literature in Australia has now focused on documenting and analysing different tools that could be employed by local authorities that may provide some of the benefits of amalgamation and seek to avoid some of the negative aspects of wholesale amalgamation. Some of these tools include resource sharing models, Regional Organisation of Councils (ROC's), Joint Board Models, Agency Models and Virtual Local Governments (Dollery and Johnson, 2005; Dollery, Brynes and Allan, 2007). The importance of this work is that there are many different governance structures that already exist in Australia that, if used effectively, may enhance efficiency.

Comparisons with this emerging literature can be drawn with the McKinlay Douglas Ltd (2006) report for Local Government New Zealand. Using four case studies, the report outlines various strategies, under the heading alternatives to amalgamation, used by local authorities in New Zealand to address common issues of interest. The four examples highlight the range of mechanisms, tools and processes that are used by local government in New Zealand.

When these examples are considered in light of the range of tools available to local authorities (Council Controlled Organisations for example), and the shared service arrangements between local authorities already in place (for example the combined waste operations between Waitakere, North Shore and Rodney), it is clear that there are many tools available to New Zealand councils that may provide opportunities for increased efficiency. However little published research appears to have been undertaken that evaluates the effectiveness of these tools.

While the focus of this paper has been on municipal reform in Canada and Australia, it is important to note that multiple agencies impact on the ways *cities* work and function. As Sancton (2004) notes

“...policy-making for successful competitive cities involves so much more than what the most effective and efficient of municipal governments could ever possible accomplish. Effective city governance (as opposed to effective municipal governance) involved complex intergovernmental networks in various policy fields ...it also involved involvement from the private sector, especially in relation to the nurturing of the educational and cultural facilities that are now understood to be so important for the health of our cities (p. 30).

This is an important point. While acknowledging the governance arrangements of a local authority undoubtedly affect a city, a sole focus on such institutions risks becoming myopic by ignoring the range of other actors involved in creating a good city. Therefore focus

should be afforded to the role of that the community, private sector and central government could play to ensure the region achieves its potential.

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