

The Future Governance of the Auckland Region

**A discussion paper on
amalgamation: lessons from
international experience**

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1. Purpose

This discussion paper is being produced as part of a project undertaken by the Local Government Centre (LGC) for a group of co-funders including five territorial local authorities within the Auckland region and the New Zealand Council for Infrastructure Development.

The purpose of the project is to develop resource material which can help meet the need for access to high-quality, current and objective information on the different possible options for regional, district and local governance for people considering making submissions to the Royal Commission on Auckland Governance. The project will scope New Zealand and international experience, examine emerging trends and their strengths and weaknesses, and outline the different possible options for the future governance of the Auckland region which, in the words of the terms of reference for the Royal Commission, will "over the foreseeable future... maximise, in a cost-effective manner:

- The current and future well-being of the region and its communities; and
- The region's contribution to wider national objectives and outcomes."

This paper is the third in a series of discussion papers being produced to enable feedback from the project co-funders. Its theme is: amalgamation: lessons from international experience - assessment of the costs and benefits of amalgamation versus other options efficiency gains. The first paper dealt with current trends in metropolitan governance and the second with local governance – the role of scale, function and engagement in effective local governance.

This paper is relatively brief as it is primarily an update of developments since the completion of the Local Government New Zealand project *Local Government Structure and Efficiency*, undertaken by McKinlay Douglas Limited in 2006. The LGC's expectation is that co-funders will use this discussion paper, and the local government structure and efficiency report, to inform their own thinking at this stage of their preparation for submissions to the Royal Commission.

2. Background: Approach

BACKGROUND

The view that "bigger is better" and that the optimal way of achieving efficiency gains in local government services is through amalgamation has been widespread and persistent in New Zealand. It was reflected in pre-election policies put forward by the New Zealand First, United Future and National parties in the lead up to the 2005 election. It has been prominent in the current debate over the future governance of the Auckland region.

In 2006 McKinlay Douglas Limited undertook a major project for Local Government New Zealand and a group of local authorities looking at international evidence on experience with amalgamation in terms of the cost and efficiency of local government services as compared with other options, particularly shared services and other options which separate out the provider and production components of those services¹. The following extract from the project report summarises the findings from international experience:

An extensive review of the experience of local government amalgamation, whether sector wide as with recent New Zealand, English, Australian State and Canadian provincial experience, or focused on individual authorities as with Halifax, is at best equivocal on the proposition that amalgamation will produce benefits in terms of reduced costs and/or improved services.

The reasons include the normally unanticipated but common impacts of factors such as alignment of salary scales, incompatibility of systems or the need to upscale, staff morale, and the disturbance associated with major organisational change.

Of particular importance for the current debate in New Zealand is what the literature has to say about economies of scale as a rationale for local government amalgamation. In general, the research argues that larger local authorities tend to be less efficient than medium-sized or smaller authorities. More importantly, although achieving economies of scale matters, they do not provide a rationale for local government amalgamation.

¹ The term 'provider' is now commonly applied in the literature to the local authority in its role of determining those services which should be provided for its community, and the term 'producer' to the entity which actually undertakes and delivers the service.

Economies of scale are a function of individual services and, depending on the service, optimal scale will be reached at a street, neighbourhood, community, district or regional level. From this it follows that the better approach to realising economies of scale is to address the organisational arrangements involved service by service. As part of this local authorities should distinguish between their role as service enablers [in current terminology as providers] - determining the nature and quality of services which should be delivered to their communities - and that of the provider [in current terminology producer]. This latter role should be undertaken by the entity or entities best placed to do so on a least cost basis in relation to the nature of the service and the accountabilities involved with it (this should not be seen as an argument for privatisation, although the private sector does have a role to play - internationally, it seems that most arrangements for contracting out, joint venturing etc, are within the public sector often as collaborative arrangements amongst two or more local authorities).

Improving the efficiency with which local government delivers services remains an objective of higher tiers of government in virtually every country. The "bigger is better" view still has a strong following as can be seen from the rationale for the current round of amalgamations in Queensland. On balance, however, there is an increasing tendency to focus both on the collateral costs of amalgamation, including the loss of community identity, and on the evidence that it is seldom an effective means of reducing actual costs or improving operating efficiency compared with alternatives such as shared services. There is, though, one proviso. The shared services approach needs to be applied in substance as well as in form, and requires a strong commitment at both political and management levels if it is to be effective.

APPROACH

In this discussion paper we do not substantially revisit the findings of the local governance structure and efficiency project. Instead, we consider major developments since then, and revisit one issue in particular, the ongoing debate over the outcome of the reform of city governance in Toronto. The following sections of this paper are:

- Continuing reform in Australian local government.
- Developments in English local government.
- Concluding comments: implications for Auckland (which also covers the further comment on the Toronto reforms).

3. Continuing reform in Australian local government

Reform of Australian local government, and in parallel with that continuing research evidence assessing the costs and benefits of reform, remains extremely topical. The Queensland State government is in the midst of a major restructuring of its local government sector. The Western Australia Local Government Association has just released *Shaping the Future of Local Government in Western Australia*, the draft report of its Systemic Sustainability Study project.

In this section we first look at some recent research evidence and then consider the implications of the reform processes in Queensland and Western Australia.

Recent research evidence

Two papers provide valuable insights into Australian evidence on whether local government amalgamation results in increased efficiencies and cost reductions.

The first paper, Pilcher (2005), considers the robustness of the financial data on which judgements about potential savings are based using New South Wales as a case study. Initial analytical analysis was carried out on all NSW local councils (170), followed by a more detailed study of 56 councils. The method adopted included archival research combined with interviews and case study analysis. Valuation and depreciation practices as applied to transport infrastructure assets were used as exemplars to investigate the study objective.

The paper's conclusions include the following comment:

Local government councils in NSW are currently facing deteriorating infrastructure, increased costs and lower revenues. A lack of guidelines is making it difficult to report these infrastructure assets and related expenses accurately. Nonetheless, there is the potential for political parties to use these flawed financial figures in performance measures designed to assist them in determining the viability and autonomy of NSW local councils. In an attempt to achieve economies of scale, NSW local councils have been requested to consider amalgamation. However, there is little evidence to suggest that this type of reform alone will alleviate the current problems being experienced by NSW local councils.

A particular issue was different rules and practices regarding depreciation. This would be less of a concern in New Zealand, given the more robust reporting rules

and statutory accountability requirements under which New Zealand local authorities operate. This however is not the principal point to take from Pilcher's paper. Instead it directs concern to reports from other jurisdictions on the claimed benefits of amalgamation. Rather than simply taking figures at face value, it is essential to understand the basis on which those figures are prepared and be able to make an informed judgement on just how reliable they actually are.

The second paper, Dollery et al (2006), uses the findings of the Financial Sustainability Review Board² to test the issue of whether local government amalgamations had resulted in any improvement in the financial standing of fiscally distressed local authorities in that state. The paper reports that the review board itself found little direct relationship between type of local authority (Metropolitan versus country) or size and density on the one hand and financial sustainability on the other. It comments of the board report that:

With the sole and partial exception of small, sparse and slow-growing rural shires, it demonstrated that there is no systemic relationship between council size and council sustainability, at least in the South Australian local government milieu. This finding severely undermines claims by advocates of municipal amalgamation that 'bigger is better' in Australian local government. Moreover, empirical evidence of this kind supports the view - as the Board itself pointed out - that alternative means of enhancing the effectiveness of local authorities should be actively pursued, including alternative models of local government involving resource sharing and regional alliances.

Strictly speaking, the question of financial sustainability is a somewhat different question from the costs of amalgamation - it seems quite probable that some councils or groups of councils, at least, could be financially non-sustainable both before and after amalgamation, but amalgamation might still result in a reduction in the cost of services. It should, though, be noted that the local government structure and efficiency report itself examined the issue of the claimed savings from the South Australian amalgamations in some depth and concluded that on balance there appeared to be no evidence that savings resulted.

² This was an initiative of the Local Government Association of South Australia which, in 2005, undertook a major review of the financial sustainability of South Australian local authorities.

Reform processes in Queensland and Western Australia

Queensland

In May 2005 the Local Government Association of Queensland released its Size, Shape and Sustainability (SSS) discussion paper. That paper stated the background SSS to the project as:

This Discussion Paper on shared services, regional cooperation and voluntary boundary changes has been prepared and approved by the LGAQ Executive to assist discussion and debate by member councils on the future size, shape and sustainability of Queensland Local Government. A Special Conference on this topic has also been called for 31May/1 June 2005.

This LGAQ Executive decision recognised the range of drivers, not only in Queensland but also in other states, which point to the need for a Local Government driven response to issues of size, shape and sustainability. The Executive fully supports the current LGAQ policy which opposes forced amalgamations, however it is nevertheless appropriate for individual Councils to voluntarily look at structural improvements that can enhance efficiency and effectiveness at the local level.

The Association believed that it had State government support for the initiative, and the State government certainly provided a very significant contribution towards the costs of the project. However, in April 2007 the State government announced the establishment of a Local Government Reform Commission which would be given three months to determine the future shape of local government in Queensland with what amounted to a mandate to recommend wholesale amalgamation.

There is a widespread view that the State government acted because it believed that the local government sector was not addressing serious issues of financial sustainability and service delivery (especially in respect of water) with the commitment and urgency required.

The Commission described its approach to its task in the following terms:

The Act has as its objective the organisation of local governments in Queensland in a way that:

- facilitates optimum service delivery to Queensland communities;
- ensures local governments effectively contribute to, and participate in, Queensland's regional economies;
- manages economic, environmental and social planning consistent with regional communities of interest; and

- effectively partners with other levels of government to ensure sustainable and viable communities.

In undertaking its task, the Commission evaluated various scenarios against these objectives. The scenarios selected for analysis were based on:

- Size, Shape and Sustainability (SSS) review groups and the document prepared by the Local Government Association of Queensland on possible structural reform being contemplated as part of the SSS initiative;
- Commission analysis of regional communities of interest;
- suggestions received from councils, individuals, organisations and community groups;
- retention of current boundaries and the extent to which a “no change” scenario met the objectives of the review; and
- models suggested as alternatives to amalgamation such as shared services.

The Commission then went on to make it clear that it was unimpressed by the different options being considered within the SSS project, taking the view that amalgamation represented a better approach. Its explanation of the basis for this judgement suggests that the Commission members may not have been fully cognizant of the international research evidence on the true costs of amalgamation but assumed, instead, that amalgamations would be relatively straightforward and raise few if any difficulties in areas such as incompatibility of systems, cultures, and employment terms and conditions and many of the other factors which typically result in local government amalgamations resulting in significantly higher costs than originally predicted. It stated its reasons as:

The Commission has considered the merits of multi-purpose joint boards and shared services as alternatives to amalgamation, both generally and in the specific instances where they were proposed by councils.

Following examination of the various models the Commission concludes:

- multi-purpose joint boards and strategic alliances do not deliver any additional efficiencies in local government service delivery that could not be achieved through amalgamation with less cost and greater accountability to constituents; and
- regional co-operative structures and shared service arrangements generally offer less efficiency and economies of scale than could be achieved through amalgamation (essentially because of the additional overheads they incur). However, they may have applicability in areas where amalgamation is not being recommended by the Commission.

The report itself contains no detailed reasoning and nor does it include any references which would suggest familiarity with the extensive research literature on the costs and benefits of local government amalgamation. This may be

understandable, given that the Commission had only three months from commencing its task to delivering its report.

That said, the Queensland experience is a clear demonstration of the risk which a local government sector faces if it does not sufficiently understand the consequences associated with a higher tier of government becoming impatient with the focus and pace of sector directed reform.

Western Australia

In Western Australia the State government has been consistently supportive of localgovt's self-reform initiatives. Some two years ago it allocated \$3 million to the Connecting Local Governments initiative. This initiative had two separate funding streams to assist the capacity and efficiency of local government in Western Australian through collaborative service delivery between local governments. \$1 million was allocated for distribution in the 2006/2007 financial year and \$2 million for allocation in 2007/2008.

The website for the Department of Local Government and Regional Development (www.dlgrd.wa.gov.au) sets out a range of possible options which the State government is encouraging individual local governments to consider. It is quoted at length both as one of the more interesting examples of a higher tier of government prepared to encourage local government to find its own solutions, and because it offers a range of useful options which should be of interest within the Auckland region:

Local Government Models of Governance

There are several governance models that local governments can establish with a view to increasing efficiency and effectiveness of service delivery.

Some Advantages of Structural Reform and Resource Sharing

- Cost savings through efficiency gains
- Improvements in the long term viability of local government
- Improved buying power through shared purchasing arrangements and
- Increased capacity to afford and access professional and specialist staff.

Structural Reform and Resource Sharing

There are several governance models that local governments can use to put structures in place to share resources with a view to increasing the efficiency and effectiveness of service delivery.



Voluntary Amalgamation

Voluntary amalgamation involves the creation of one new local government from two or more existing local governments. Amalgamation includes the integration of organisation structures, facilities management, service provision and of policies and regulations across the combined areas.

The Department has published a brochure *Implementing Amalgamation – A handbook for local governments to assist local governments considering amalgamation*.

[Implementing Amalgamation](#) [PDF 251.09Kb](#)

Regional Local Governments

The establishment of regional local governments, often called regional councils, are governed by the *Local Government Act 1995*. Member local governments and their boundaries retain their elected members.

The South East Metropolitan Regional Council (SEMRC) has published an [article highlighting substantial savings for member councils](#) [PDF 17.09Kb](#)

The Eastern Metropolitan Regional Council (EMRC) [Corporate Bochure](#) [PDF 878.35Kb](#) by permission of EMRC.

Voluntary Resource Sharing Models

Voluntary arrangements are generally between councils, irrespective of their distance apart, and are aimed at reducing costs and to also improve the level of service delivery. The sharing of employees and provision of services occurs in such arrangements.

Advantages are:

- Administration and bureaucracy is minimal and flexibility is high;
- Costs of entering or terminating agreements is minimised;
- The independence of individual councils is not compromised.

Resource Sharing – Service Level Agreements

This model is similar to the voluntary model, however the arrangement is formalised through an agreement. Agreements can be entered into with another local government or a private sector organisation. [Sample Memorandum of Understanding](#) [PDF 81.00Kb](#) (permission of City of Belmont)



With arrangements formalised, the local government providing the service can have greater confidence in planning its work program and making decisions on resourcing issues.

The City of Canning has some good [examples](#)  [PDF 14.90Kb](#) in resource sharing.

Voluntary Regional Organisations of Councils

VROCs are voluntary groups of councils and usually consist of several geographically adjacent local governments. They are financed by a fee from each member council, separately constituted, and governed by a board consisting of members from each constituent council.

There are a number of VROCs operating in Western Australia. They have been established to encourage and promote cooperation amongst local governments in a region, facilitate the exchange of information about common concerns and solutions and to encourage resource sharing. Some of the more prominent VROCs are in the North Eastern Wheatbelt and the Avon.

Key roles they perform are:

- Intermunicipal cooperation
- Regional planning and development
- Elected member and employee development
- Regional coordination of submissions and tendering
- Development of common policy positions and
- Enhance regional lobbying with state and Commonwealth Governments.

Regional Centre Model

With this scenario, a regional centre becomes the hub for providing services such as HR, financial management, while the smaller centres retain governance and independence.

In parallel with the State government support for local government seeking its own solutions, the Western Australia Local Government Association (WALGA) has been taking its own initiative on sector wide reform through its Systemic Sustainability Study (SSS) project. This had its origins in 2004 as it became clear that both major political parties, in the lead up to the 2005 state elections, would be raising the issue of local government reform.

In July 2007 a workshop consisting of the WALGA Executive Team and working party members from the five SSS working parties was convened to establish the level of alignment between the frameworks emerging in their respective areas.

The result of the discussion was a Vision Statement to guide the continuing efforts of the working parties:

“Local Government will implement and maintain a governance model that integrates effective service delivery (on a regional basis) with appropriate political representation (on a local basis).”

“The Vision was based on the outcome of consultations to that point which had been reported in the SSS Panel Report, confirmed at the April 2007 Forum, and repeatedly expressed in the course of the working parties’ efforts.

“The firmly held view, based on this combined effort, was that the core strength of Local Government lies in its representational base for the aspirations and expectations of local communities. While for numerous and pressing reasons reform was absolutely necessary, measures which sacrificed this strength should not be advocated.” (Shaping the Future of Local Government in Western Australia, WALGA 2008).

WALGA is supporting a 10 year plan for reform which will move local government on to a basis where, generally, service delivery will be handled at a regional level, whilst representation will remain at the current local level. The approach is of particular interest because of the strong separation which the SSS project has made between political representation on the one hand and effective service delivery on the other. It emphasises that one of the core values of local government is the strength of community, and the social capital built up over many years within existing structures of governance and engagement.

Its approach has also been influenced by an awareness of what has happened in Queensland, with the experience of state intervention being seen as a lesson for other local governments that state governments can become impatient and that, if local government itself does not take reform seriously, it is likely to be pre-empted at the state level. This background is set out in the following paragraphs:

The 10 Year Plan puts forward a reform program based on functional efficiency rather than the outdated notion of structural reform generating the appearance of institutional efficiency. A precondition for having industry-led

reform is that Local Governments actively engage in the reform process. It is contended that unless substantial action is taken by individual Local Governments to enact reform on a voluntary basis, the right for the sector to lead the reform process will be questioned and eventually removed.

This likely outcome is based on what happened in Queensland where the State Government cited a lack of engagement by Local Government with the voluntary reform program as being a major reason for halting a voluntary structural reform process and proceeding with forced amalgamations. The Queensland State Government's view was that the sector squandered the opportunity to determine its own future and there is now a dramatically reduced number of Local Governments representing and serving Queensland's local communities.

Shaping the Future of Local Government also discusses the rationale for a shift to a regional approach to service delivery, including setting out criteria which should be of interest for local government in Auckland (and for that matter the rest of New Zealand):

However, what is clearly preferred is that the platform for the evaluation of alternative service delivery be regional rather than local. This then permits the capacity to retain some services at the local level where the case can be made, and also to scope upwards to consider the delivery of services and functions on a state-wide basis.

It is suggested that the following criteria should apply in deciding when to consider if Local Governments would achieve benefit by involvement in an alternative service delivery approach:

- The proposal has clear potential to achieve economies of scale and/or provide a financial return to the Local Governments involved.
- The participating Local Government does not have a comparative advantage, which will enable it to provide services more effectively or economically at the local level, rather than through an alternative method.
- A new activity can be introduced through the alternative approach, which may not be practical for the participating member or members to attempt alone.
- Adopting the alternative approach will demonstrably contribute to the viability and long term sustainability of the participating Local Governments. **(p145)**

Comment

The reform processes in Queensland and Western Australia are both only part way through. Elections of new councils in Queensland were taking place as this paper was being drafted. Responses to the WALGA draft report are currently being sought. The next phase will be consideration of the responses and completion of the final report for recommendation to both the local government sector and the State government. This is expected to be completed by June 2008.

Queensland and Western Australia will provide two virtually parallel processes for the reform of local government one based on compulsory amalgamation and the other on voluntary reform, including the possibility of amalgamation but focused on selecting the most efficient structures for service delivery. This should allow a useful comparison between two quite different approaches and perhaps shed further light on the vexed question of whether compulsory amalgamation is more (or at all) capable of producing the claimed gains in costs and efficiency as compared with voluntary arrangements if those are genuinely committed.

5. Developments in English local government

The English government continues its emphasis on improving the efficiency of local government through a variety of initiatives including continuous performance assessment, and requirements to achieve savings in baseline expenditure:

Local government is required to improve its efficiency by achieving savings of at least £6.45 billion, or 7.5% of 2004/05 baseline expenditure by 2007/08. All 388 English councils are expected to achieve 2.5% efficiency gains each year, of which 1.25% must be cashable gains. Councils are free to determine how best to achieve gains locally, but are expected to utilise any savings by 'releasing resources to the front-line' (Audit Commission 2007).

In support of continuing improvement, a number of specific initiatives have been put in place. They include:

- Regional Improvement and Efficiency Partnerships in which councils in a region join forces to coordinate and support the drive for improvement, innovation and efficiency.
- The Local Government Delivery Council established in 2007 under the auspices of the Local Government Association. It provides a forum where activity around transformation can be brought together, monitored and developed.

There appears to be little interest in further amalgamation of local authorities, no doubt in part because of the growing recognition that the average English local authority is substantially larger than its equivalents throughout Europe and, associated with this, a concern that sheer size is undermining local democracy. On the other hand, the government is promoting the creation of a number of unitary authorities. England's generally two tier system is made up of counties responsible for the delivery of major social services such as education and social services, strategic land use planning and highways and transport, and districts responsible for more localised services such as housing, parks and reserves, street cleaning and local land use planning.

Increasingly districts, often based on old "cities", are seeking unitary authority status arguing that they are best placed to deliver both tiers of service. The government has been receptive to requests for the establishment of unitary authorities but the changes are proving controversial largely because of arguments over cost and efficiency. Proponents of unitary authorities argue that the savings

will exceed the costs. Opponents argue the contrary. The difference between the two sides appears largely a function of whether they believe the changes will be achieved with the minimum of disturbance, system integration difficulties etc, or whether they expect that the experience, common with local government amalgamation, of legacy systems, organisational cultures, employment conditions etc, blowing out costs will prevail.

On the efficiency front, there is growing activity both in terms of back-office and of front office shared services. The Audit Commission will, in May 2008, release the results of its research into the efficiency of back-office shared services. The objectives of the research include:

identify and map the efficiency gains made by local authorities, assessing the value for money; costs and benefits associated with efficiency programmes in back office functions;

- determine the impact of back office efficiency gains on the delivery of local public services;
- identify the key characteristics of those activities that deliver the highest value for money gains;
- assess the sustainability of efficiency gains to date and the scope for achieving future efficiencies, including the potential for future gains; and
- determine notable practice.

The Local Government Delivery Council has a broad-based focus on service improvement within local government. In May 2007 it released *Front Office Shared Services: delivering public service transformation*. This was a series of case studies of successful front office shared services initiatives not just between groups of councils, but between councils and other public sector agencies.

Although both back-office and front office shared services initiatives are taking place within the context of the very directive relationship which exists between central government and local government in England, there is much in both of these areas of activity which will be of relevance for New Zealand local government and which should also be seen by central government and its advisers as offering a practical alternative to forced amalgamation.

6. Concluding comments: implications for Auckland

The purpose of this paper and the accompanying report from the Local Government Structure and Efficiency project is to provide an overview of experience internationally with local government amalgamation and alternative means of improving efficiency, especially shared services. A number of lessons emerge which are relevant for the future governance of the Auckland region.

The view that "bigger is better" and that economies of scale can best be captured by amalgamating local authorities is an extremely persistent one. It seems to have particular appeal to politicians in higher tiers of government because it presents the appearance of acting decisively in response to public concerns over the performance of local government.

"Before and after" research in to the effects of forced amalgamations provides considerable evidence that ex ante studies typically under estimate the costs of organisational change in both financial and non-financial terms, largely because of a failure to make sufficient allowance for factors such as incompatible systems, the need to build new systems to cope with larger scale, the merging of different organisational cultures (a much more difficult matter in local government than in the private sector) and the sheer complexity of building large multifunctional organisations.

Sancton (2004) provides some interesting observations on the difficulties which have confronted the city of Toronto post-amalgamation, which illustrate the point (and incidentally raise questions about whether Toronto provides a useful model for the future structure of the Auckland region, rather than a cautionary tale).

First, he draws on testimony to the Toronto Computer Leasing Inquiry, an inquiry established on the initiative of the City of Toronto into the apparent maladministration of certain computer leasing contracts. On the scale issue Sancton observes that:

Testimony at the inquiry has shown that Garrett [the city's chief executive] and other senior administrators were so pre-occupied by ensuring that the amalgamation appeared to be working (and by the trauma of Y2K) that they were unable to enforce simple practices of good management, let alone develop new ones for a municipal bureaucracy so large that it bore no resemblance to that of any other municipality in Canada.

Related to this were difficulties associated with the relatively weak political control of the council. As will appear from Sancton's description, the weaknesses bear strong



similarities to the typical political structure and control of New Zealand councils. In this respect he observes:

In Toronto, the key post-amalgamation problem has been leading and controlling the vast administrative behemoth that the amalgamation created. The problem starts right at the top. Mayors in Ontario municipalities have very little independent legal authority. Furthermore, they almost never control a stable majority of votes on city council, so they can rarely make credible commitment that the city will follow one course of action rather than another. Toronto Mayor David Miller's victory immediately after his recent election in gaining council support for overturning its previous decision to support a bridge to the Toronto island airport so that Miller could deliver on his most important election promise is surely the exception that proves the rule. Such a system borders on the dysfunctional in medium-sized cities; it was a disaster in post-amalgamation Toronto....

Finally, in a commentary on enthusiasm for amalgamation generally, he observes that:

The tragedy for many Canadian cities during the past decade — especially Toronto and Montreal — is that so much time and effort has been devoted to reorganizing municipal structures that smart people in municipal government, politicians and senior staff, have been unable to focus on what it is that municipal governments *can* do to enhance the quality of life in cities: provide an interesting and diverse built environment, the services for which are reliable and efficient. In an almost panic-driven effort to make municipal governments bigger, provincial politicians have forgotten that the intricately built environments of our central cities might actually be better managed by those who live there rather than by residents of distant suburbs, or that some potential investors might be better attracted to a metropolitan area by diversity of municipal jurisdictions, each with different mixes of taxes and services, rather than by the grandiose claim that the central municipality is the third, fourth, or tenth largest in North America.

There are strong suggestions in much of the research on the efficiency of local government that the optimal scale in terms of cost per capita is a population of around 150,000 residents and that, as size increases much beyond that level, costs per capita rise.

Economies of scale are a function of individual local authority services, not of local authority structures themselves. Accordingly, endeavours to achieve economies of scale should focus on what can be done to amalgamate individual services, rather than the councils which provide them.

Internationally, there is widespread experience of separating out the division between provision (the political decision that the community should have access to certain services) and production, actually producing and delivering those services.

A shared services strategy can offer very real benefits. In practice, though, shared services strategies can face very significant obstacles of which the most serious is generally opposition within individual local authorities, especially amongst middle management who may see the potential risks to their future promotion and related prospects more clearly than they see the benefits to their communities. Two lessons follow from this. The first is that shared services strategies require firm commitment from the top level of the local authority on down, including active buy-in from the chief executive. The second is that there does need to be strong focus on dealing effectively and empathetically with people inside the local government organisation or organisations involved who may feel threatened. Both of these lessons have a direct application for Auckland. Some eight years ago a serious endeavour to adopt a shared services strategy across the major councils of the region got as far as the completion of a detailed implementation plan before disappearing without trace (http://www.northshorecity.govt.nz/your_council/projects/shared_services_agreement.htm). Discussion with one of the officials involved suggests that management opposition was the major factor.

Higher tiers of government can become impatient with lack of progress, especially if reform of local government is seen as an integral part of achieving major objectives which that higher tier has within its own policy programme. Local governments addressing issues of reform should always keep in mind the risk that the higher tier may simply lose patience. There is good research evidence to support an attitude of this kind, as in most situations requiring major reform it appears that local governments are generally unprepared or unwilling to take the hard decisions. This is an understandable attitude but not one which will produce an optimal outcome for the future of the Auckland region.

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