

Discussion paper re The amalgamation of councils to form “Greater Hobart”

Written by John Quinn, Coningham¹

Introduction

A report commissioned by the Southern Tasmanian Councils Authority entitled “Independent review of Structures for Local Governance & Service Delivery in Southern Tasmania” (The Report) has proposed the amalgamation of councils to form a “Greater Hobart” Council. It recommends the amalgamation of the Councils of Hobart, Glenorchy, Brighton, Clarence (excluding Richmond and its surrounds) and the urban part of Kingborough (excluding the Channel area and Bruny Island). Richmond and surrounds would be combined with Sorrel, while the Channel and Bruny Island would join the Huon Valley.

The purpose of this paper is to consider:-

- The wisdom of the amalgamation.
- The possible impact on Kingborough ratepayers.
- Whether communities of the Channel and Bruny Island would be better served by staying with the “urban areas” areas of Kingborough.

The paper concludes the proposed amalgamation is “out of step” with contemporary thinking. The costs and risks associated with the amalgamation of 5 councils are far in excess of the potential benefits, which could be largely achieved through other means. Kingborough ratepayers could be financially worse off and Kingborough Council need to carefully consider the long term strategic positioning of Kingston. The Channel and Bruny Island should logically stay with the rest of Kingborough rather than join a Council to which it has little physical, commercial or cultural connection.

The Greater Hobart Proposal.

The benefits of the recommended amalgamation are said to be – efficiency and cost savings – improved advocacy- unified policies –cohesive long term strategic planning– potential for more professional staff . (The Report pp20-24)

1. Efficiency and cost savings.

The Report estimates savings of 15% of the combined expenditure of the five councils (The Report P23) . This arises from more efficient asset maintenance, procurement practises and reduced administration costs.

There is very little support for these estimates outside the paper written by Deloitte, (Deloitte 2011) for the Property Council of Australia. Deloitte suggest that “an efficiency gain of up to 35%” can be achieved(Deloitte 2011 P29). They say this is supported by their econometric model (Deloitte 2011 P27). However, the model indicates that per capita expenditure is flat once councils reach a population of 50,000. This corresponds with a report written by Dr Bruce Felmingham for Clarence council (Deloitte 2011 p 13 cite Felmingham). Two of the five councils (Hobart & Clarence) already have populations in excess of

¹ A note about the author is provided at the back of the paper.

50,000. The Deloitte model also indicates that the drop in per capita expenditure once the population exceeds 30,000, is relatively small i.e. Kingborough & Glenorchy (Deloitte p.26).

Not only does the econometric model not support the savings estimates but neither does a large body of literature that is based on past experience, throughout Australia and other parts of the world. The literature suggests that large councils are not necessarily lower cost (i.e. more efficient). The substantial report "Consolidation in Local Government; A Fresh Look" prepared for the Australian Centre for Excellence in Local Government (ACELG) states - "there is little evidence that amalgamation will of itself yield economies of scale greater than those achievable through other forms of consolidation Yet many in central government - and some in local government - still cling to the belief that substantial savings can and should be made" (Aulich et al. 2011 p. 10 point 12)

Dollery & Case point out the savings generated in both Victoria and South Australia were substantially below target. Further, most of the limited savings in both states could have been achieved without amalgamation (Dollery & Crase 2004 p 274).

Councils acting in cooperation can achieve savings from asset management, procurement and other economies of scope. (The Report 2011, appendix I, G) (Aulich et al. 2011 p28), (Dollery & Crase 2004 p269). Dollery & Bynre (2007) identify 5 reasons frequently given for council amalgamation and propose a number of structural alternatives to achieve the same benefits, without amalgamation.

The Financial Sustainability Review Board (FSRB) commissioned by the South Australian Local Government Association finds "amalgamation brings with it significant costs and often exaggerated benefits". The FSRB point out that there are many other forms of cooperation that can achieve similar outcomes with less cost and presumably less risk. (Dollery, Byrnes & Crase 2007 p12)

The ACELG point out that the full costs of amalgamation are frequently left out of the calculation of net savings. Amalgamation and some other forms of consolidation have considerable dislocation costs and many are borne by the council but others are borne by the community. (Aulich et al. 2011 p10 point 12)

No estimate is provided for the costs of forming "Greater Hobart" which must be considerable e.g. capital costs such as new large systems, redundancy, training and equipment etc.

In summary, the evidence is that no amalgamation should take place without a very thorough cost benefit analysis, comparing the various alternatives. The amalgamation of 5 large councils such as these should be treated as a high-risk exercise.

2. Advocacy

The suggestion is that one Mayor speaking for the whole of Hobart who would be a “powerful advocate for the city and for the southern Tasmania”, they would “set an agenda for expenditurethat would underpin economic growth” (The Report p.24)

There are a number of aspects to be considered here. First is this the role of the mayor of Hobart or the role of the State Premier? Tasmania is only a small state and Hobart is its capital city. State Government, quite rightly, has always taken an interest in the City. Would such a powerful figure create more conflict between the various levels of government.

If such a advocate is felt to be desirable then it could be achieved through a more informal arrangement with the existing councils or a less ambitious and lower risk amalgamation between Hobart and Glenorchy

3. Unified Policies and Services

Developers have, with good reason, continually complained about the inconsistency of the treatment of planning applications from council to council. Amalgamation is a costly way of overcoming a problem that can be solved by properly drafted planning laws and guidelines that clearly specify the role of councils and if necessary impose fines on them for not carrying out their responsibilities. However there is another side to this and that is the question of what rights should communities have about the type of development that occurs in their area. For example Kingborough Council has often been criticised for ignoring “Character Statements” that communities have helped prepare.

A similar argument can be put forward about services. Some communities may choose to have a lower level of service either because it maintains the character of their area or to minimise council charges. Small councils where management and elected representatives are close to ratepayers can formulate policy more inline with their needs and be more responsive to the issues. (Dollery & Johnson 2005 p 84). For example Coningham does not wish to have water or sewerage services and the cost outweighs the benefit.

There is plenty of evidence where councils have used “innovative and improved approaches to service delivery” (Aulich et al. 2011 p 11 point 18).

4. More Cohesive Strategic Planning

This is one area where a large (amalgamated) unit may have an advantage of enhanced “strategic capacity” (Aulich et al 2011 p 10 point 14). However, Dollery & Crase (2004 p274) point out much can be achieved through a Regional Organization of Councils (ROC). In fact an appropriately staffed ROC could use the bottom up form of strategic planning process often favoured by business. This would recognise the differences across communities and highlight and focus on the similarities where joint action can be taken.

5. Potential for More Professional Staffing.

Once again the advantages of more professional or specialist services can be obtained via a number of other forms consolidation. (Dollery & Johnson 2005) & (Aulich et al. 2011 pp. 42-52)

Conclusion

There is mounting evidence that council amalgamation is not the “most efficacious” means of improving the efficiency of local councils. (Dollery, Byrnes & Case 2008).

The author believes that the merger of 5 councils to form a “Greater Hobart” is a high-risk option that should not proceed without far more consideration of the alternatives and the costs of amalgamation.

Kingborough and its Rate Payers

Is a merger to form Greater Hobart beneficial for Kingborough ratepayers . This is considered from two aspects – will the ratepayer benefit from better services or lower costs – benefit from being part of the “Greater Hobart” strategy.

1. Better Services or lower costs.

It can be seen from the table below that Kingborough’s expenditure per capita is significantly below the three large councils and its rates are half that of Hobart. Therefore unless large savings are generated from the amalgamation, ratepayers in Kingborough may face increased charges

Local Government Areas per Capita Operating Expenses and Rates

Council	Expenses	Rates
Clarence	\$1,006	\$663.46
Hobart	\$1,960	\$1,099.31
Glenorchy	\$1,384	\$478.36
Kingborough	\$973	\$509.60
Brighton	\$706	\$372.58

Source Table 1 &2 Independent review of Structures for Local Governance & Service Delivery in Sothern Tasmania”

At the end of last Financial Year the combined debt of Clarence, Hobart and Glenorchy was \$21.0 m., whereas Kingborough and Brighton were debt free. On top of this Hobart had a contingent liability for land fill restoration of \$7.7m. Therefore, ratepayers of Kingborough and Brighton would be taking on the debt of others (Annual reports 2010-11).

2. Future Strategy

One of the positives of amalgamation is the ability of the larger unit to develop cohesive long-term strategies. However, as stated above there are other ways for councils to cooperate to achieve this.

It is important for Kingborough consider the role of Kingston over the next 10 – 20 years. Is it simply an extension of the City of Hobart and thus a convenient commercial centre for the dormitory suburbs of Hobart? Or is it a service centre for Southern Tasmania? After all it is positioned at the junction of the Huon and Channel Highways. If it is former then clearly Kingborough should work closely with Hobart and Glenorchy whereas if it is the latter it needs to work more closely with Huon Valley.

There are some advantages for the second alternative. If Kingston High were upgraded to include year 11 & 12 it is conveniently placed to service both communities. Longer term a transport interchange could be positioned at Kingston, to service both communities for public transport to the city. Future, recreational, cultural and entertainment facilities could be placed where they are convenient to both.

The Kingborough Council need to consider the strategic alternatives and talk openly with other councils and the State Government. The future shape of Kingston should be planned with this decision clearly in mind.

The Channel and Bruny Island

If the merger of the 5 councils proceeds then the nonurban areas of Kingborough are “between a rock and a hard place”. The proposal that the Channel and Bruny Island join with Huon Valley is disconnecting the area from its primary service centre of Kingston and Hobart City. The roads to Huonville are very circuitous and cost of servicing from the Huonville likely to be high.

The report provides no reason for the disconnection of the Channel & Bruny Island and it does not seem to fit the criteria suggested by some commentators, that include: - “cultural and historical legacy embodied in the existing boundaries” -“economic community of interest”- efficient delivery of services- and shared environmental space. (Dollery& Crase 2004 p272)

Residents of the Channel and Bruny Island would probably be better served by staying with the rest of Kingborough.

The above criteria would suggest that, if Kingborough is not amalgamated with Hobart the ratepayers of Taroona should be asked if they wish to be integrated into Hobart Council.

Conclusion

The case for the amalgamation of the five councils is out of line with contemporary thinking. The financial justification for the amalgamation is very questionable and the benefits can largely achieved through other less disruptive, costly and risky forms of consolidation. The ratepayers of Kingborough face higher risks because their council is relatively low cost and without debt.

Kingborough Council need to look hard at the strategic positioning of Kingston. They need to talk openly with other councils, including Huon Valley, and the State Government.

The future of the Channel and Bruny Island should be tied to Kingborough

Bibliography

Aulich C, Gibbs M., Gooding A., McKinlay P., Pillora S., & Sansom G.; May 2011 *Consolidation in Local Government: A Fresh Look*. Vol 1. Australian Centre of Excellence for Local Government.

http://www.acelg.org.au/upload/Consolidation%20Final%20Report%20Vol%201_web.pdf

Deloitte Access Economics Aug. 2011 *Local Government structural reform in Tasmania*. Property Council of Australia.
www.deloitte.com/.../Deloitte_Local_Govt%20Structural_Reform.pdf

Dollery B., Byrnes J. & Crase L. 2007 *Is Bigger Better? Local government Amalgamation and the South Australian rising to the Challenge Inquiry*, Economic Analysis & Policy Vol. 37 No.1 March 2007

Dollery B., Byrnes J. & Allan P., 2007 *Optimal Structural Reform in Australian Local Government: An Empirical Analysis of Economics of Scale by Council Function in New South Wales*, Urban Policy and Research, 25:4 473-486

Dollery B., Byrnes J., & Crase L 2007., *Is Bigger Better? Local Government Amalgamation and the South Australian Rising to the challenge Inquiry* Economic Analysis & policy Vol. 37 No.1, March 2007

Dollery B., Byrnes J., & Crase L., 2008 *Structural reform in Australian Local Government*. Australian Journal of Political Science 43:2, 333-339

Dollery, B. & Crase L 2004 *Is bigger local government? An evaluation of the case for Australian municipal amalgamation programs*. Urban Policy and Research 22:3 265-275

Dollery B., Johnson A., 2005 *Enhancing Efficiency in Australian Local Government: An Evaluation of Alternative Models of Municipal Governance*, Urban policy and Research , 23:1, 73-85

Independent Panel 2011 *Independent review of Structures for Local Governance & Service Delivery in Southern Tasmania*" <http://stca.tas.gov.au/future/>

The Author

Before retirement John was Managing Director of Thorn Lighting (Australasia) and was CEO/General Manager of Stramit Industries. John was involved with a number of corporate mergers over this period.

John holds a Bachelor of Commerce Degree (UNSW) and is currently studying an Associate Degree in General Studies (at UTAS) focusing on Economics and Government.