Waste & Recycling Association of South Australia Inc.

6 April 2016

Ms Lyn Camilleri
Director - Adjudication
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

By email: adjudication@accc.gov.au

Attention: Ms Tess Macrae

Dear Ms Macrae

Your reference: 58822
Council Solutions & Others
Authorisation Application No. A91520
INDEPENDENT ECONOMIC ANALYSIS

I refer to our previous correspondence and our submissions.

As we have previously submitted, objective economic analysis is of crucial importance in assessing this Application.

In our view, there is no objective economic evidence which supports the Application, and significant evidence to justify rejecting the Application.

With a view to assisting ACCC in its deliberations, we reproduce below a copy of a paper published just yesterday by Brian Dollery, Professor of Economics and Director of the Centre for Local Government, at the University of New England. The source reference is quoted in the reproduction.

We note that this paper is the outcome of independent and unbiased research, and it is written from the standpoint of ratepayer benefit/ detriment.

Our Association is concerned to endeavour that relevant facts essential to consideration of the net public benefit are drawn to the attention of the ACCC.

Yours sincerely

John Fitzpatrick
Public Officer

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Do mergers make for better councils?
The evidence is against 'bigger is better' for local government

(Published on Business Environment Network News website and reproduced therefrom: http://www.ben-global.com/storyview.asp?StoryID=826962131)

5 April 2016

**by Brian Dollery, Professor of Economics and Director of the Centre for Local Government,
University of New England**

NSW is now on the cusp of a further round of mergers being inflicted on unwilling councils.

In all three cases, the architects of compulsory amalgamation have been under the sway of the dogma that "bigger is better" in local government. Ratepayers are told amalgamation will herald a new dawn of lower rates, cheaper services, improved service quality, enhanced financial viability and superior administration and planning.

In NSW, the Baird government has especially emphasised the financial advantages of municipal amalgamation. These claims are typically presented as the outcome of careful research and deliberation.

Mergers tested in a real-world experiment

Are these claims consistent with the empirical evidence? My colleagues Brian Bell and Joseph Drew and I investigated this question for NSW's 2004 forced amalgamations.

We took advantage of being able to use 2014 data to compare the performance of merged councils with their unmerged counterparts over ten years.

We compared amalgamated "general purpose" councils with their un-amalgamated peer councils in the same local government classification. We thus had the benefit of a "natural experiment", being able to compare the two groups of "like" councils against a common set of performance indicators.

Our peer-reviewed research paper will be published shortly.

The criteria we used for this comparison included four that the Baird government is using under its "Fit for the Future" program – operating performance, own-source revenue, building and infrastructure renewal, and asset maintenance ratios – as well as council employees per capita.

We found no statistically significant differences in the performance of the two groups of councils against these criteria. This falsifies past claims by the Carr Labor government that its forced amalgamations would substantially improve NSW local government financial performance. It also undermines the Baird Coalition government's claims for its proposed mergers.

Evidence mounts against 'bigger is better'

Other research provides additional damning evidence. For example, Joseph Drew, Mike Kortt and I examined the outcomes of forced amalgamations in Queensland in 2008. These reduced the number of councils from 157 to just 73.

Our research demonstrated that this resulted in a **greater proportion of councils exhibiting diseconomies of scale**. That is, **mergers created entities that were simply too large to be run efficiently**.

Furthermore, of the 31 new councils the mergers created, 58% exhibit decreasing returns to scale. Comparing their efficiency through time, we found **merged councils performed worse than unmerged councils**.

> ***Did the Big Stick Work? An Empirical Assessment of Scale Economies and the Queensland Forced Amalgamation Program***
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> *Abstract: In 2007, the Queensland Government imposed forced amalgamation with the number of local authorities falling from 157 to just 73 councils. Amalgamation was based inter alia on the assumption that increased economies of scale would generate savings.*
>
> *This paper empirically examines pre- and post-amalgamation (2006/07 and 2009/10) for scale economies. For the 2006/07 data, evidence of economies of scale was found for councils with populations up to 98,000, and thereafter diseconomies of scale. Eight percent of councils in 2006/07 (ten councils) – representing 64% of the state's population – exhibited diseconomies of scale. For the 2009/10 data, the average cost curve remained almost stationary at 99,000 residents per council, but almost 25% of all councils (thirteen councils) were now found to exhibit diseconomies of scale. The compulsory merger program thus increased the proportion of Queensland residents in councils operating with diseconomies of scale to 84%.*
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> ***Is Biggest Best? A Comparative Analysis of the Financial Viability of the Brisbane City Council***
>
> ***4. Results***
> ***4.3. Association between the expenditure type and population before and after forced amalgamation***
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> *For both the pre- and post-amalgamation periods, there is no evidence of scale economies for either 'roads' or 'domestic waste'. This is particularly interesting given that municipal expenditures on 'roads' constitute approximately 85% of ongoing council expenditure.*
>
> *However, there is evidence to suggest that expenditure on 'parks' in the pre- and post-amalgamation periods exhibits strong economies of scale. Nevertheless, it needs to be borne in mind that expenditure on 'parks' represents only around 5% of ongoing council expenditure.*

> *Since **'parks' is the only service to exhibit scale economies**, perhaps a more suitable policy response would have been to concentrate on the joint provision of this service as 'shared services'. Strategic alliances such as shared services represent an alternative approach to reaping the benefits associated with consolidation without the associated deleterious economic and social costs (Dollery and Akimov 2008b).*

Finally, Elizabeth Sinnewe, Mike Kortt and I recently tested the claim that "bigger is better" by examining the financial performance of Australia's largest council by population, Brisbane City. In our recently published analysis, we compared Brisbane City Council to Sydney City Council, the average of six southeast Queensland councils and the average of ten metropolitan NSW councils.

We did so using four measures of financial performance – financial flexibility, liquidity, debt service capacity and asset management. Between 2008 and 2011, the three comparator groups outperformed Brisbane Council in financial flexibility, liquidity and debt-servicing ability.

Taken together, these three papers cast doubt over the continuing dogma that "bigger is better". They also add to the empirical literature on municipal mergers by demonstrating that "biggest is not best" either.

In particular, the financial performance of local authorities does not improve as advocates of amalgamation contend. On the contrary, amalgamated municipalities often perform worse than their unmerged counterparts.

Amid the controversy over the Baird government's compulsory council consolidation program, our findings underline the foolishness of making public policy in an "evidence-free" manner.

If forced amalgamations proceed, we may well see hundreds of millions of dollars in taxpayer and ratepayer funds squandered simply because policymakers preferred dogma to empirical evidence.